

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

**MTBC, Inc.**

**Form: 10-K**

**Date Filed: 2020-02-28**

Corporate Issuer CIK: 1582982

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**Form 10-K**

(Mark one)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2019

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-36529



**MTBC, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**22-3832302**

(I.R.S. Employer Identification Number)

**7 Clyde Road**

**Somerset, New Jersey**

(Address of principal executive offices)

**08873**

(Zip Code)

**(732) 873-5133**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of exchange on which registered
Common Stock, par value \$0.001 per share	MTBC	Nasdaq Global Market
11% Series A Cumulative Redeemable Perpetual Preferred Stock, par value \$0.001 per share	MTBCP	Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer [ ]  
Non-accelerated filer [X]

Accelerated filer [ ]  
Smaller reporting company [X]  
Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

As of June 30, 2019, the aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant was approximately \$31.4 million, based on the last reported trading price of the Common Stock on that date, as reported on the Nasdaq Global Market.

At February 27, 2020, the registrant had 12,335,930 shares of common stock, par value \$0.001 per share, outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on May 19, 2020 are incorporated by reference into Part III, Items 10, 11, 12, 13, and 14 of this Annual Report on Form 10-K.

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## Table of Contents

<a href="#"><u>Forward Looking Statements</u></a>	2
<b><u>PART I</u></b>	
<a href="#"><u>Item 1. Business</u></a>	3
<a href="#"><u>Item 1A. Risk Factors</u></a>	10
<a href="#"><u>Item 1B. Unresolved Staff Comments</u></a>	31
<a href="#"><u>Item 2. Properties</u></a>	31
<a href="#"><u>Item 3. Legal Proceedings</u></a>	31
<a href="#"><u>Item 4. Mine Safety Disclosures</u></a>	31
<b><u>PART II</u></b>	
<a href="#"><u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u></a>	32
<a href="#"><u>Item 6. Selected Financial Data</u></a>	33
<a href="#"><u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></a>	36
<a href="#"><u>Item 7A. Quantitative and Qualitative Disclosures about Market Risk</u></a>	49
<a href="#"><u>Item 8. Financial Statements and Supplementary Data</u></a>	49
<a href="#"><u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u></a>	50
<a href="#"><u>Item 9A. Controls and Procedures</u></a>	50
<a href="#"><u>Item 9B. Other Information</u></a>	50
<b><u>PART III</u></b>	
<a href="#"><u>Item 10. Directors, Executive Officers and Corporate Governance</u></a>	51
<a href="#"><u>Item 11. Executive Compensation</u></a>	51
<a href="#"><u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u></a>	51
<a href="#"><u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u></a>	51
<a href="#"><u>Item 14. Principal Accounting Fees and Services</u></a>	51
<b><u>PART IV</u></b>	
<a href="#"><u>Item 15. Exhibits, Financial Statement Schedules</u></a>	52
<a href="#"><u>Signatures</u></a>	56

## **Forward-Looking Statements**

Certain statements that we make from time to time, including statements contained in this Annual Report on Form 10-K, constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements other than statements of historical fact contained in this Annual Report on Form 10-K are forward-looking statements. These statements relate to anticipated future events, future results of operations or future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may," "might," "will," "should," "intends," "expects," "plans," "goals," "projects," "anticipates," "believes," "estimates," "predicts," "potential," or "continue" or the negative of these terms or other comparable terminology. Our operations involve risks and uncertainties, many of which are outside our control, and any one of which, or a combination of which, could materially affect our results of operations and whether the forward-looking statements ultimately prove to be correct. Forward-looking statements in this Annual Report on Form 10-K include, without limitation, statements reflecting management's expectations for future financial performance and operating expenditures (including our ability to continue as a going concern, to raise additional capital and to succeed in our future operations), expected growth, profitability and business outlook, increased sales and marketing expenses, and the expected results from the integration of our acquisitions.

Forward-looking statements are only predictions, are uncertain and involve substantial known and unknown risks, uncertainties, and other factors that may cause our (or our industry's) actual results, levels of activity or performance to be materially different from any future results, levels of activity or performance expressed or implied by these forward-looking statements. These factors include, among other things, the unknown risks and uncertainties that we believe could cause actual results to differ from these forward-looking statements as set forth under the heading, "Risk Factors" and elsewhere in this Annual Report on Form 10-K. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all of the risks and uncertainties that could have an impact on the forward-looking statements, including without limitation, risks and uncertainties relating to:

- our ability to manage our growth, including acquiring, partnering with, and effectively integrating the recent acquisition of CareCloud Corporation and other acquired businesses into our infrastructure and avoiding legal exposure and liabilities associated with acquired companies and assets;
- our ability to retain our clients and revenue levels, including effectively migrating new clients and maintaining or growing the revenue levels of our new and existing clients;
- our ability to maintain operations in Pakistan and Sri Lanka in a manner that continues to enable us to offer competitively priced products and services;
- our ability to keep pace with a rapidly changing healthcare industry;
- our ability to consistently achieve and maintain compliance with a myriad of federal, state, foreign, local, payor and industry requirements, regulations, rules, laws and contracts;
- our ability to maintain and protect the privacy of confidential and protected Company, client and patient information;
- our ability to develop new technologies, upgrade and adapt legacy and acquired technologies to work with evolving industry standards and third-party software platforms and technologies, and protect and enforce all of these and other intellectual property rights;
- our ability to attract and retain key officers and employees, and the continued involvement of Mahmud Haq as Executive Chairman and Stephen Snyder as Chief Executive Officer, all of which are critical to our ongoing operations, growing our business and integrating of our newly acquired businesses;
- our ability to comply with covenants contained in our credit agreement with our senior secured lender, Silicon Valley Bank and other future debt facilities;
- our ability to compete with other companies developing products and selling services competitive with ours, and who may have greater resources and name recognition than we have; and
- our ability to keep and increase market acceptance of our products and services.

Although we believe that the expectations reflected in the forward-looking statements contained in this Annual Report on Form 10-K are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. Except as required by law, we are under no duty to update or revise any of such forward-looking statements, whether as a result of new information, future events, or otherwise, after the date of this Annual Report on Form 10-K.

## PART I

### Item 1. Business

#### Our Company

MTBC, Inc., (and together with its consolidated subsidiaries “MTBC” or the “Company”) is a healthcare information technology company that offers an integrated suite of proprietary cloud-based electronic health records and practice management solutions, together with related business services, to healthcare providers. The Company’s integrated services are designed to help customers increase revenues, streamline workflows and make better business and clinical decisions, while reducing administrative burdens and operating costs. The Company’s services include full-scale revenue cycle management, electronic health records, and other technology-driven practice management services for private and hospital-employed healthcare providers. These solutions and services include:

- Revenue cycle management (“RCM”) services, which include end-to-end medical billing, eligibility, analytics, and related services, all of which can often be provided either with our technology platform or through a third-party system;
- Proprietary healthcare IT solutions, which are bundled with our RCM services, including:
  - Electronic health records (“EHR”), which are easy to use, integrated with our business services or offered as software as a service (“SaaS”) solutions, and allow our healthcare provider clients to reduce paperwork and qualify for incentives;
  - Practice management (“PM”) software and related tools, which support our clients’ day-to-day business operations and workflows;
  - Mobile Health (“mHealth”) solutions, including smartphone applications that assist patients and healthcare providers in the provision of healthcare services;
  - Healthcare claims clearinghouse, which enables our clients to electronically scrub and submit claims to, and process payments from, insurance companies; and
  - Business intelligence, customized applications, interfaces and a variety of other technology solutions that support our healthcare clients;
- Group purchasing services which include our negotiation of discounts with pharmaceutical manufacturers and the extension of those discounts to our physician members;
- Comprehensive practice management services, which are offered under long-term management service agreements pursuant to which we provide certain practices with the administrative support, facilities, supplies, equipment, marketing, RCM, accounting, and other non-clinical services required to efficiently operate their practices; and
- Telemedicine, a service which is launching in 2020, will allow our clients to conduct remote office visits with patients and bill for these visits where permissible.

We are able to deliver our industry-leading solutions at very competitive prices because we leverage a combination of our proprietary software, which automates our workflows and increases efficiency, together with our team of over 300 experienced health industry experts throughout the United States. These experts are supported by our highly educated and specialized offshore workforce of approximately 2,400 team members at labor costs that we believe are approximately one-tenth the cost of comparable U.S. employees. Our unique business model has allowed us to become a leading consolidator in our industry sector, gaining us a reputation for acquiring and positively transforming distressed competitors into profitable operations of MTBC.

During January 2020, the Company, through a merger with its subsidiary, acquired CareCloud Corporation (“CareCloud”), which has developed a highly acclaimed cloud-based platform including EHR, PM and patient experience capabilities. The Company acquired CareCloud on a cash-free, debt-free basis with neutral working capital. The total consideration for the merger paid at closing was \$17 million in cash and 760,000 shares of the Company’s 11% Series A Cumulative Redeemable Perpetual Preferred Stock. The merger agreement provides that if CareCloud’s 2020 revenues exceed \$36 million, there will be an earn-out payment to the seller equal to such excess, up to \$3 million. Additional consideration included warrants to purchase 2,000,000 shares of the Company’s common stock, 1,000,000 of which has an exercise price per share of \$7.50 and a term of two years, and the second million of which has an exercise price per share of \$10.00 and a term of three years. Of the preferred stock consideration, 160,000 shares of Series A Preferred Stock will be held in escrow for up to 24 months, and an additional 100,000 shares of Series A Preferred Stock will be held in escrow for up to 18 months, in both cases, to satisfy indemnification obligations of the seller for losses arising from certain specified contingent liabilities.

During April 2019, the Company acquired substantially all of the revenue cycle management business of Etransmedia Technology, Inc. ("ETM") through MTBC's wholly owned subsidiary MTBC-Med, Inc. The Company paid \$1.6 million in cash for the acquisition.

The ETM acquisition added additional clients to the Company's customer base and, similar to previous acquisitions, broadened the Company's presence in the healthcare information technology industry through geographic expansion of its customer base and by increasing available customer relationship resources and specialized trained staff.

During July 2018, the Company acquired substantially all of the revenue cycle management, practice management and group purchasing assets of Orion Healthcorp, Inc. and 13 of its affiliates (together "Orion"). The acquisition was completed through MTBC's wholly owned subsidiaries, MTBC Health, Inc. and MTBC Practice Management, Corp. The Company paid \$12.6 million in cash for the acquisition. This acquisition expanded the scope of our offerings to include additional niche hospital solutions, a service that negotiates vaccine discounts with pharmaceutical manufacturers and then extends those vaccine discounts to its physician members, and a service that provides end-to-end practice management services to physician practices under multi-decade management service agreements.

Adoption of our RCM solutions typically requires little or no upfront expenditure by a client. Additionally, for most of our solutions and customers, our financial performance is linked directly to the financial performance of our clients, as the vast majority of our revenues are based on a percentage of our clients' collections. The standard fee for our complete, integrated, end-to-end solution is among the lowest in the industry. We estimate that as of December 31, 2019, we provided services to approximately 10,500 providers, (which we define as physicians, nurses, nurse practitioners, physician assistants and other clinical staff that render bills for their services) practicing in approximately 1,800 independent medical practices and hospitals, representing 86 specialties and subspecialties in 46 states. In addition, we served approximately 200 clients that are not medical practices, but are primarily service organizations who serve the healthcare community. The foregoing numbers include clients leveraging any of our products or services, and are based in part upon estimates where the precise number of practices or providers is unknown.

We service clients ranging from small practices, consisting of one to ten providers, to community hospitals. Our customer, that generates the largest revenue for us, has over 1,800 providers of physical, occupational and speech therapy services to patients in multiple states.

On July 23, 2014, the Company completed its initial public offering ("IPO") of common stock. The Company sold approximately four million shares at a price of \$5.00 per share to the public.

In November 2015, the Company completed a public offering of its 11% Series A Cumulative Redeemable Perpetual Preferred Stock (the "Preferred Stock" or "Series A Preferred Stock"). The Company sold 231,616 shares at a price of \$25.00 per share and received net proceeds of approximately \$4.7 million. In July 2016, the Company sold an additional 63,040 shares of Preferred Stock and received net proceeds of approximately \$1.3 million. In 2017, the Company raised a total of \$16.4 million in net proceeds from a series of additional offerings totaling approximately 765,000 shares of Preferred Stock, all at \$25.00 per share. In May 2017, the Company completed a registered direct offering of one million shares of its common stock at \$2.30 per share, raising net proceeds of approximately \$2.0 million. During 2018, the Company issued 1,020,000 shares of Preferred Stock and received net proceeds of approximately \$22.8 million. During 2019, the Company issued 373,000 shares of Preferred Stock and received net proceeds, after fees and expenses, of approximately \$9.6 million.

On February 6, 2019, the Company's Board of Directors approved an amendment to our Articles of Incorporation to change the Company's name to MTBC, Inc.

## **Employees**

Including the employees of our subsidiaries, as of December 2019, the Company employed approximately 2,700 people worldwide on a full-time basis. We also utilize the services of a small number of part time employees. In addition, all officers of the Company work on a full-time basis. Over the next twelve months, we anticipate increasing our total number of employees only if our revenues increase, our operating requirements warrant such hiring, or we are hiring for specific functions where we place additional emphasis, such as marketing and sales.

## **Our Growth Strategy**

The Healthcare IT service industry is highly fragmented, with many local and regional RCM companies serving small medical practices and hospitals. We believe that the industry is ripe for consolidation and that we can achieve significant growth organically and through acquisitions. We further believe that it is becoming increasingly difficult for traditional RCM companies to meet the growing technology and business service needs of healthcare providers without a significant investment in an information technology infrastructure. Since the Company went public in July 2014, we have acquired substantially all of the assets of 15 RCM companies. Although the specific arrangements have varied with each transaction, typical arrangements include a discounted price, consideration which is sometimes tied to revenues from the customer relationships acquired, and structuring the acquisition as an asset purchase so as to limit our liability. We typically leverage our technology and our cost-effective offshore team to reduce costs promptly after the transaction closes, although there will be initial costs associated with the integration of the acquired business with our existing operations.

We believe we can further accelerate organic growth through industry participants, whereby in addition to obtaining referrals, we utilize them as channel partners to offer integrated solutions to their clients. We have entered into such arrangements with industry participants, and from which we began to derive revenue from them starting in mid-2014. We have developed application interfaces with numerous EHR systems, together with device and lab integration to support these relationships.

During 2018, we completed our acquisition of Orion, adding approximately \$29 million and \$17.8 million of revenue for the years ended December 31, 2019 and 2018, respectively. In addition to revenue cycle management, after the Orion acquisition we earned approximately 21% and 19% of our revenue from practice management services for the years ended December 31, 2019 and 2018, respectively, which represents fees based on our actual costs plus a percentage of the operating profit. We also earned approximately 2% of our revenue from group purchasing services for both the years ended December 31, 2019 and 2018.

During January 2020, we completed our acquisition of CareCloud, which is our largest acquisition to date. CareCloud offers software services for PM, electronic health records and patient experience management on a SaaS basis and also offers RCM services to a portion of its clients.

## **Industry Overview**

In December 2019, Healthcare Finance reported that healthcare spending in the U.S. hit a high-water mark of \$3.6 trillion, rising at a rate of 4.6%. They reported that nearly 60% of the total cost goes toward hospitals, physicians and clinical services. The Centers for Medicare and Medicaid Services ("CMS") also projected that U.S. healthcare spending will grow 5.7% annually on average during years 2020 through 2027, reaching \$6.0 trillion by 2027. CMS also projected that health spending will grow 0.8% faster than gross domestic product ("GDP") annually during the years 2020 through 2027; and as a result, the healthcare share of GDP is expected to rise from 17.9% in 2017 to 19.4% by 2027.

**Increasingly complex reimbursement processes.** New laws and payer requirements have further complicated insurance reimbursement processes. For example, Medicare, Medicaid and commercial insurances are increasingly requiring proof of adherence to best practices and improved patient health outcomes to support full reimbursement. Moreover, the recent shift to a new generation of insurance codes has dramatically increased the complexity associated with selecting appropriate procedure and diagnosis codes needed to support proper claim submission and reimbursement.

**Movement toward healthcare information technology.** Since 2011, the federal government has offered financial incentives to eligible healthcare providers who adopt and meaningfully use EHR technology. Beginning in 2015, providers who were not meaningfully using this technology began to incur penalties, which increase over time. While these incentives and penalties have encouraged many providers to adopt and meaningfully use EHR software, we believe that most providers are not utilizing an integrated platform that combines practice management, business intelligence, and revenue cycle management. The lack of an integrated platform leaves them ill-equipped to address the multitude of rapidly growing industry challenges and government mandates.

The US Healthcare IT industry market has been estimated by Markets & Markets to be approximately \$177 billion with its largest sub-segment RCM to be approximately \$87 billion in 2019, growing at a 12% compound annual growth rate ("CAGR"). The North American EHR market has been estimated to be approximately \$40 billion, growing at a CAGR of 6% per year. The Analytics and AI sub-segment was estimated to be approximately \$30 billion, growing at a 27% CAGR and the Telehealth market is estimated to be approximately \$20 billion with a CAGR of 17%. Standalone billing and practice management solutions are reported to be declining in the market today as medical practices move towards integrated, end-to-end systems that incorporate front and back office data flows, provide seamless access to clinical data from EHRs, and streamline the entire revenue cycle management process.

**Shift in focus to preventive care.** In an effort to avoid the negative health effects and increased costs associated with undetected and untreated chronic conditions, most health insurance plans provide co-payment and deductible-free coverage for preventive health services, such as annual well visits. Many believe that this shift in focus will, in the long-term, reduce costs and improve patient health. Effective preventative health services require access to comprehensive medical records that are readily available to primary care physicians and other physicians providing preventative healthcare.

**Inaccessibility of critical data.** To thrive in the emerging healthcare landscape, healthcare practices need timely information, such as health insurance plan eligibility and coverage details, provider performance and productivity data, as well as clinical and reimbursement benchmarking. However, we believe that most small and medium size practices do not have access to this type of real-time data, business intelligence and analytical tools, and thus struggle to efficiently operate their practices and make optimal decisions.

## Competition

The market for practice management, EHR and RCM information solutions and related services is highly competitive, and we expect competition to increase in the future. We face competition from other providers of both integrated and stand-alone practice management, EHR and RCM solutions, including competitors who utilize a web-based platform and providers of locally installed software systems. Our competitors also include larger healthcare IT companies, such as athenahealth, Inc., Allscripts Healthcare Solutions, Inc., eClinicalWorks and Greenway Medical Technologies, Inc.

Many of our competitors have longer operating histories, greater brand recognition and greater financial, marketing and other resources than MTBC. We also compete with various regional RCM companies, some of which may continue to consolidate and expand into broader markets. We expect that competition will continue to increase as a result of incentives provided by various governmental initiatives, and consolidation in both the information technology and healthcare industries. In addition, our competitive edge could be diminished or completely lost if our competition develops similar offshore operations in Pakistan or other countries, such as India and the Philippines, where labor costs are lower than those in the U.S. (although higher than in Pakistan). Pricing pressures could negatively impact our margins, growth rate and market share.

## **Our Solution**

We believe that our fully integrated solutions uniquely address the challenges in the industry. Our solutions dramatically simplify the complexities inherent in the claim reimbursement process and thereby deliver objectively superior results, such as reduced claim denial rates, improved customer days in accounts receivable, reduced patient no-shows, increased well visit encounters and reimbursement. Our solutions empower our customers with the real-time data they need to be efficient and make better decisions, such as real-time insurance eligibility and deductible details, provider productivity details and payer benchmarking.

Our fully integrated suite of technology and business service solutions is designed to enable healthcare practices to thrive in the midst of a rapidly changing environment in which managing reimbursement, clinical workflows and day-to-day administrative tasks are becoming increasingly complex, costly and time-consuming. Moreover, in most cases the standard fee for our complete, integrated, end-to-end solution is based upon a percentage of a practice's healthcare-related revenues, with a monthly minimum fee, plus a nominal one-time setup fee, and is among the lowest in the industry.

## **Our Business Strategy**

Our objective is to become the leading provider of integrated, end-to-end SaaS and business service solutions to healthcare providers practicing in an ambulatory setting. To achieve this objective, we employ the following strategies:

- **Provide comprehensive practice management, electronic health records, revenue cycle management and mobile health solutions to independent healthcare practices and hospitals.** We believe that providers are in need of an integrated, end-to-end solution, such as the solution that MTBC provides, to manage the different facets of their businesses, from clinical documentation to claim submission and financial reporting.
- **Provide exceptional customer service.** We realize that our success is tied directly to our customers' success. Accordingly, a substantial portion of our highly trained and educated workforce is devoted to customer service.
- **Leverage significant cost advantages provided by our technology and skilled offshore workforce.** Our unique business model includes our web-based software and a cost-effective offshore workforce primarily based in Pakistan. We believe that this operating model provides us with significant cost advantages compared to other revenue cycle management companies and it allows us to significantly reduce the operational costs of the companies we acquire.
- **Pursue strategic acquisitions.** Approximately 58% of our current practices and 78% of the current year's revenue were obtained through strategic transactions with revenue cycle management companies. With most of our acquisition transactions, our goal is to retain the acquired customers over the long-term and migrate those customers to our platform soon after closing.

## **Our Service Offerings**

### **Healthcare IT:**

We offer fully-integrated, cloud-based SaaS solutions and business services designed for healthcare providers. Our products and services offer healthcare providers a unified solution designed to meet the healthcare industry's demand for the delivery of cost-efficient, quality care with measurable outcomes. The four primary components of our proprietary web-based suite of services are: (i) practice management applications, (ii) a certified electronic health records solution, (iii) revenue cycle management services, and (iv) mobile health applications. We also offer group purchasing services.

PracticePro®, which we have offered for several years, provides our clients with a seamlessly integrated, end-to-end solution. TalkEHR ®, our proprietary cloud-based EHR, is also available to customers as a standalone product. We regularly update our software platform with the goal of staying on the leading edge of industry developments, payer reimbursements trends and new regulations.

As of January 8, 2020, we now offer CareCloud's widely acclaimed platform to customers, both on a SaaS basis and bundled with RCM services. This platform offers additional capabilities beyond those available in talkEHR®. The Company anticipates integrating the CareCloud platform and its proprietary platform in the coming years.

#### ***Cloud-based practice management application***

Our proprietary, cloud-based practice management application automates the labor-intensive workflow of a medical office in a unified and streamlined SaaS platform. The various functions of the platform collectively support the entire workflow of the day-to-day operations of a medical office in an intuitive and user-friendly format. For example, our platform provides office staff with real-time insurance details to allow them to more efficiently collect patient payments; its automated appointment reminders reduce patient no-show rates, and its scheduling functionality results in increased reimbursable patient well visit appointments. A simple, individual and secure login to our web-based platform gives physicians, other healthcare providers and staff members' access to a vast array of real time practice management data which they can access at the office or from any other location where they can access the Internet. Users can customize the "Practice Dashboard" to display only the most useful and relevant information needed to carry out their particular functions. We believe that this streamlined and centralized automated workflow allows providers to focus on delivering quality patient care rather than office administration.

#### ***Electronic health records***

Both our cloud-based EHR solution and CareCloud's platform have received ONC-ACB Health Information Technology certification. Moreover, in a previous study, KLAS, a leading independent industry assessor of healthcare information technology products, issued its annual electronic health records ranking and CareCloud's EHR placed first in our target market of one to ten providers, outperforming most leading electronic health records. Our and CareCloud's EHR allows a provider to view all patient information in one online location. Providers can track patients from their initial appointments; chart clinical data, history, and other personal information; enter and submit claims for medical services; and review and respond to queries for additional information regarding the billing process. Additionally, the EHR software delivers a robust document management system to enable providers to transition to paperless environments. The document management function makes available electronic connectivity between practitioners and patients, thereby streamlining patient care coordination and communications. In 2015, we introduced a tablet-based EHR, leveraging our web-based platform in a form that many providers find more convenient. During the third quarter of 2017, the Company introduced talkEHR™, a voice enabled EHR solution.

#### ***Revenue cycle management and other technology-driven business services***

Our proprietary revenue cycle management offering is designed to improve the medical billing reimbursement process, allowing healthcare providers to accelerate and increase collections, reduce errors in submission and streamline workflow to free up practitioners to focus on patient care. Customers using PracticePro® will generally see higher claims acceptance and resolution, and faster collections. Our revenue cycle management service employs a proprietary rules-based system designed and constantly updated by our knowledgeable workforce, who screens and scrubs claims prior to submission for payment.

#### ***Mobile health solutions***

The functionality of our cloud-based platform is extended to mobile devices through our integrated suite of mobile health applications. These mobile health applications include physician end-user tools that support, among other things, electronic prescribing, the capture of billing charges in the current medical coding formats, and the creation and secure transfer of clinical audio notes that are converted into text and billing charges. In 2015, we introduced an ICD-10 mHealth app for iOS and Android, which has emerged as the most popular ICD-10 app among U.S. healthcare providers. We also offer iCheckIn, a patient check-in app for iOS and Android-based tablet devices. Our patient applications allow patients to access their medical information, securely communicate with their doctors' office, schedule appointments, request prescription refills, pay balances and check-in for office appointments.

#### ***Practice management:***

Since 2018 MTBC offers comprehensive practice management services to physicians where we provide the medical practice with appropriate facilities, equipment, supplies, support services and administrative support staff. We also provide management, bill-paying and financial advisory services. The Company's fees are based on the operating results of the practice.

**Patient experience solution:**

Due to the January 2020 acquisition of CareCloud, we now offer their product called *Breeze*. This product helps patients manage every interaction with a practice including check-in, appointments, messages, intake forms and payments on many different electronic devices thus integrating the core patient activities coordinated by the front office into one seamless digital workflow.

**Telemedicine:**

In December 2019, MTBC introduced a Telemedicine capability which will allow our physician customers to conduct remote telemedicine appointments with their patients and bill for these appointments where permitted. We will offer telemedicine services as part of an integrated suite of services available to our physician customers using our platform. We are working towards offering telemedicine on a standalone basis as well.

**Voting Rights of Our Directors, Executive Officers, and Principal Stockholders**

As of December 31, 2019, approximately 49% of both the shares of our common stock and voting power of our common stock are held by our directors and executive officers. Therefore, they have the ability to control the outcome of matters submitted to our stockholders for approval, including the election of our directors, as well as the overall management and direction of our company.

**Corporate Information**

We were incorporated in Delaware on September 28, 2001 under the name Medical Transcription Billing, Corp., and legally changed our name to MTBC, Inc. on February 6, 2019. Our principal executive offices are located at 7 Clyde Road, Somerset, New Jersey 08873, and our telephone number is (732) 873-5133. Our website address is [www.mtbc.com](http://www.mtbc.com). Information contained on, or that can be accessed through, our website is not incorporated by reference into this Annual Report on Form 10-K, and you should not consider information on our website to be part of this document.

MTBC, MTBC.com, A Unique Healthcare IT Company, CareCloud and other trademarks and service marks of MTBC appearing in this Annual Report on Form 10-K are the property of MTBC. Trade names, trademarks and service marks of other companies appearing in this Annual Report on Form 10-K are the property of their respective holders.

We were an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act until December 31, 2019. We note that, as a smaller reporting company and a non-accelerated filer, we may take advantage of specified reduced reporting requirements and are relieved of certain other significant requirements that are otherwise generally applicable to public companies, including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, as amended, reduced disclosure obligations regarding executive compensation in our Annual Report, periodic reports and proxy statements and providing only two years of audited financial statements in our Annual Report and our periodic reports.

**Where You Can Find More Information**

Our website, which we use to communicate important business information, can be accessed at: [www.mtbc.com](http://www.mtbc.com). We make our Annual Reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports available free of charge on or through our website as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission ("SEC"). Materials we file with or furnish to the SEC may also be read and copied at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. Also, the SEC Internet website ([www.sec.gov](http://www.sec.gov)) contains reports, proxy and information statements, and other information that we file electronically with the SEC.

## **Item 1A. Risk Factors**

### **Risks Related to Our Acquisition Strategy**

#### ***If we do not manage our growth effectively, our revenue, business and operating results may be harmed.***

Our strategy is to expand through organic growth, and through synergistic, accretive acquisitions of healthcare IT companies. Since 2006, we have acquired the assets or businesses of approximately 20 RCM companies. The majority of these transactions have occurred since we went public in July 2014. Our future acquisitions may require greater than anticipated investment of operational and financial resources as we seek to migrate customers of these companies to our solutions. Acquisitions also require the integration of different software and services, assimilation of new employees, diversion of management and IT resources, and increases in administrative costs. Acquisitions may also require additional costs associated with any debt or equity financings undertaken to pay for such acquisitions. We cannot assure you that any acquisition we undertake will be successful. Future growth will also place additional demands on our customer support, sales, and marketing resources, and may require us to hire and train additional employees. We will need to expand and upgrade our systems and infrastructure to accommodate our growth. The failure to manage our growth effectively will materially and adversely affect our business.

#### ***We may be unable to retain customers following their acquisition, which may result in a decrease in our revenues and operating results.***

Customers of the businesses we acquire often have the right to terminate their service contracts for any reason at any time upon notice of 90 days or less. These customers may elect to terminate their contracts as a result of our acquisition or choose not to renew their contracts upon expiration. Legal and practical limitations on our ability to enforce non-competition and non-solicitation provisions against customer representatives and sales personnel that leave the businesses we acquire to join competitors may result in the loss of acquired customers. In the past, our failure to retain acquired customers has at times resulted in decreases in our revenues. Our inability to retain customers of businesses we acquire could adversely affect our ability to benefit from those acquisitions and to grow our future revenues and operating income.

#### ***Acquisitions may subject us to liability with regard to the creditors, customers, and shareholders of the sellers.***

While we attempt to limit our exposure to the liabilities associated with the businesses we acquire, we cannot guarantee that we will be successful in avoiding all material liability. Regardless of how we structure the acquisition, whether as an asset purchase, stock purchase, merger or other business combination, creditors, customers, vendors, governmental agencies and other parties at times seek to hold us accountable for unpaid debts, breach of contract claims, regulatory violations and other liabilities that relate to the business we acquired. Disaffected shareholders of the businesses we acquire have also attempted to interfere with our business acquisitions or brought claims against us. We attempt to minimize all of these risks through thorough due diligence, negotiating indemnities and holdbacks, obtaining relevant representations from sellers, procuring insurance coverage and leveraging experienced professionals when appropriate.

Through the CareCloud transaction, we acquired its software technology and related business, of which certain elements are currently subject to a civil investigation to determine compliance with certain federal regulatory requirements. The Company will cooperate with the inquiry as CareCloud has historically done. This element was considered as part of the transaction and we believe that the continued investigation will have no material impact on our financial statements and that we have properly protected ourselves from liability through the negotiated structure of the transaction. However, the outcome of matters such as this are not necessarily predictable. In the event of an unfavorable outcome, our business, reputation, and financial condition could be materially and adversely affected.

#### ***We may be unable to implement our strategy of acquiring additional companies.***

We have no unconditional commitments with respect to any acquisition as of the date of this Form 10-K. Although we expect that one or more acquisition opportunities will become available in the future, we may not be able to acquire additional companies at all or on terms favorable to us. We will likely need additional financing for such acquisitions, but there is no assurance that we will be able to borrow funds or raise capital through the issuance of our equity on favorable terms. Certain of our larger, better capitalized competitors may seek to acquire some of the companies we may be interested in. Competition for acquisitions would likely increase acquisition prices and result in us having fewer acquisition opportunities.

Depending on the type of businesses we acquire (e.g., RCM, practice management, EHR), we may have varying cost saving and/or cross-selling opportunities with the acquired business. However, there is no assurance that we will achieve anticipated cost savings and cross-selling on our acquisitions, and failure to do so may mean we overpaid for such acquisitions.

In completing any future acquisitions, we will rely upon the representations, warranties and indemnities made by the sellers with respect to each acquisition as well as our own due diligence investigation. We cannot be assured that such representations and warranties will be true and correct or that our due diligence will uncover all materially adverse facts relating to the operations and financial condition of the acquired companies or their customers. To the extent that we are required to pay for obligations of an acquired company, or if material misrepresentations exist, we may not realize the expected benefit from such acquisition and we will have overpaid in cash and/or stock for the value received in that acquisition.

***Future acquisitions may result in potentially dilutive issuances of equity securities, the incurrence of indebtedness and increased amortization expense.***

Future acquisitions may result in dilutive issuances of equity securities, the incurrence of debt, the assumption of known and unknown liabilities, the write-off of software development costs and the amortization of expenses related to intangible assets, all of which could have an adverse effect on our business, financial condition and results of operations.

**Risks Related to Our Business**

***We operate in a highly competitive industry, and our competitors may be able to compete more efficiently or evolve more rapidly than we do, which could have a material adverse effect on our business, revenue, growth rates and market share.***

The market for practice management, healthcare IT solutions and related services is highly competitive, and we expect competition to increase in the future. We face competition from other providers of both integrated and stand-alone practice management, EHR and RCM solutions, including competitors who utilize a web-based platform and providers of locally installed software systems. Our competitors include larger healthcare IT companies, such as athenahealth, Inc., eClinicalWorks, Allscripts Healthcare Solutions, Inc. and Greenway Medical Technologies, Inc., all of which may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards, regulations or customer needs and requirements. Many of our competitors have longer operating histories, greater brand recognition and greater financial, marketing and other resources than us. We also compete with various regional RCM companies, some of which may continue to consolidate and expand into broader markets. We expect that competition will continue to increase as a result of incentives provided by the Health Information Technology for Economic and Clinical Health ("HITECH") Act, and consolidation in both the information technology and healthcare industries. Competitors may introduce products or services that render our products or services obsolete or less marketable. Even if our products and services are more effective than the offerings of our competitors, current or potential customers might prefer competitive products or services to our products and services. In addition, our competitive edge could be diminished or completely lost if our competition develops similar offshore operations in Pakistan or other countries, such as India and the Philippines, where labor costs are lower than those in the U.S. (although higher than in Pakistan). Pricing pressures could negatively impact our margins, growth rate and market share.

***If we are unable to successfully introduce new products or services or fail to keep pace with advances in technology, we would not be able to maintain our customers or grow our business which will have a material adverse effect on our business.***

Our business depends on our ability to adapt to evolving technologies and industry standards and upgrade existing and introduce new products and services accordingly. If we cannot adapt to changing technologies and industry standards, including changing requirements of third party applications and software and meet the requirements of our customers, our products and services may become obsolete, and our business would suffer significantly. Because both the healthcare industry and the healthcare IT technology market are constantly evolving, our success will depend, in part, on our ability to continue to enhance our existing products and services, develop new technology that addresses the increasingly sophisticated and varied needs of our customers, respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis, educate our customers to adopt these new technologies, and successfully assist them in transitioning to our new products and services. The development of our proprietary technology entails significant technical and business risks. We may not be successful in developing, using, marketing, selling, or maintaining new technologies effectively or adapting our proprietary technology to evolving customer requirements, emerging industry standards or changing third party applications, and, as a result, our business and reputation could materially suffer. We may not be able to introduce new products or services on schedule, or at all, or such products or services may not achieve market acceptance or existing products or services may cease to function properly. A failure by us to timely adapt to ever changing technologies or our failure to regularly upgrade existing or introduce new products or to introduce these products on schedule could cause us to not only lose our current customers but also fail to attract new customers.

***The continued success of our business model is heavily dependent upon our offshore operations, and any disruption to those operations will adversely affect us.***

The majority of our operations, including the development and maintenance of our web-based platform, our customer support services and medical billing activities, are performed by our highly educated workforce of approximately 2,400 employees in Pakistan and Sri Lanka. Approximately 98% of our offshore employees are in Pakistan and our remaining employees are located at our smaller offshore operation center in Sri Lanka. The performance of our operations in Pakistan, and our ability to maintain our offshore offices, is an essential element of our business model, as the labor costs in Pakistan are substantially lower than the cost of comparable labor in India, the United States and other countries, and allows us to competitively price our products and services. Our competitive advantage will be greatly diminished and may disappear altogether if our operations in Pakistan are negatively impacted.

Pakistan and Sri Lanka have experienced, and continue to experience, political and social unrest, war and acts of terrorism. Our operations in our offshore locations may be negatively impacted by these and a number of other factors, including a failing power grid and infrastructure, vandalism, currency fluctuations, cost of labor and supplies, and changes in local law as well as laws within the United States relating to these countries. Client mandates or preferences for on-shore service providers may also adversely impact our business model. Our operations in Pakistan and Sri Lanka may also be affected by trade restrictions, such as tariffs or other trade controls. If we are unable to continue to leverage the skills and experience of our highly educated workforce, particularly in Pakistan, we may be unable to provide our products and services at attractive prices, and our business would be materially and negatively impacted or discontinued.

We believe that the labor costs in Pakistan and Sri Lanka are approximately 10% of the cost of comparably educated and skilled workers in the U.S. If there were potential disruptions in any of these locations, they could have a negative impact on our business.

***Future changes in visa rules could prevent our offshore employees from entering the United States, which could decrease our efficiency.***

In the ordinary course of business, we bring skilled employees from our offshore subsidiaries to the U.S. to serve as liaisons on projects and to expand the respective employees' understanding of both the U.S. healthcare industry and the needs and expectations of our customers. These visits equip them to better understand and support our business objectives. While the current administration's actions up to this point have not had an impact on us, we cannot predict whether the administration may in the future take actions that would prevent non-U.S. employees from visiting the U.S. If such restrictions were implemented in the future, it may become more difficult or expensive for us to educate and equip the employees of our foreign subsidiaries to support our business needs. We may also have difficulty in finding employees and contractors in the U.S. that can replace the functions now performed by our offshore employees that we bring over to the U.S., which could negatively impact our business.

***Our offshore operations expose us to additional business and financial risks which could adversely affect us and subject us to civil and criminal liability.***

The risks and challenges associated with our operations outside the United States include laws and business practices favoring local competitors; compliance with multiple, conflicting and changing governmental laws and regulations, including employment and tax laws and regulations; and fluctuations in foreign currency exchange rates. Foreign operations subject us to numerous stringent U.S. and foreign laws, including the Foreign Corrupt Practices Act ("FCPA"), and comparable foreign laws and regulations that prohibit improper payments or offers of payments to foreign governments and their officials and political parties by U.S. and other business entities for the purpose of obtaining or retaining business. Safeguards we implement to discourage these practices may prove to be less than effective and violations of the FCPA and other laws may result in severe criminal or civil sanctions, or other liabilities or proceedings against us, including class action lawsuits and enforcement actions from the SEC, Department of Justice and overseas regulators.

***Changes in the healthcare industry could affect the demand for our services and may result in a decrease in our revenues and market share.***

As the healthcare industry evolves, changes in our customer base may reduce the demand for our services, result in the termination of existing contracts, and make it more difficult to negotiate new contracts on terms that are acceptable to us. For example, the current trend toward consolidation of healthcare providers may cause our existing customer contracts to terminate as independent practices are merged into hospital systems or other healthcare organizations. Such larger healthcare organizations may have their own practice management, and EHR and RCM solutions, reducing demand for our services. If this trend continues, we cannot assure you that we will be able to continue to maintain or expand our customer base, negotiate contracts with acceptable terms, or maintain our current pricing structure, which would result in a decrease in our revenues and market share.

The current administration and some members of Congress have been critical of the Affordable Care Act ("ACA") and have taken steps toward materially revising or even repealing it. On December 14, 2018, a federal judge in Texas ruled the ACA unconstitutional. The decision declared that key parts of the legislation were inconsistent with the Constitution. The decision is still making its way through the courts and has not made an impact on the exchanges which are still open. As of now, there has been no impact to the coverage plans and no final ruling. The ACA included specific reforms for the individual and small group marketplace, including an expansion of Medicaid. We can give no assurances that healthcare reform initiatives, if passed, will not have a material adverse impact on our operational results or the manner in which we operate our business.

***If providers do not purchase our products and services or delay in choosing our products or services, we may not be able to grow our business.***

Our business model depends on our ability to sell our products and services. Acceptance of our products and services may require providers to adopt different behavior patterns and new methods of conducting business and exchanging information. Providers may not integrate our products and services into their workflow and may not accept our solutions and services as a replacement for traditional methods of practicing medicine. Providers may also choose to buy our competitors' products and services instead of ours. Achieving market acceptance for our solutions and services will continue to require substantial sales and marketing efforts and the expenditure of significant financial and other resources to create awareness and demand by providers. If providers fail to broadly accept our products and services, our business, financial condition and results of operations will be adversely affected.

***If the revenues of our customers decrease, or if our customers cancel or elect not to renew their contracts, our revenue will decrease.***

Under most of our customer contracts, we base our charges on a percentage of the revenue that our customer collects through the use of our services. Many factors may lead to decreases in customer revenue, including:

- reduction of customer revenue as a result of changes to the ACA;
- a rollback of the expansion of Medicaid or other governmental programs;
- reduction of customer revenue resulting from increased competition or other changes in the marketplace for physician services;
- failure of our customers to adopt or maintain effective business practices;
- actions by third-party payers of medical claims to reduce reimbursement;
- government regulations and government or other payer actions or inaction reducing or delaying reimbursement;
- interruption of customer access to our system; and
- our failure to provide services in a timely or high-quality manner.

**We have incurred operating losses and net losses, and we may not be able to achieve or subsequently maintain profitability in the future.**

We incurred net losses of approximately \$872,000 and \$2.1 million for the years ended December 31, 2019 and 2018, respectively. Our net loss for the years ended December 31, 2019 and 2018 includes approximately \$1.9 million and \$1.8 million of non-cash amortization expense of purchased intangible assets, respectively.

We may not succeed in achieving the efficiencies we anticipate from our acquisitions and possible future acquisitions, including moving sufficient labor to our offshore locations to offset increased costs resulting from these acquisitions, and we may continue to incur losses in future periods. We expect to incur additional operating expenses as a public company and we intend to continue to increase our operating expenses as we grow our business. We also expect to continue to make investments in our proprietary technology, sales and marketing, infrastructure, facilities and other resources as we seek to grow, thereby incurring additional costs. If we are unable to generate adequate revenue growth and manage our expenses, we may continue to incur losses in the future and may not be able to achieve or maintain profitability.

***Member participation in our Group Purchasing Organization (“GPO”) programs may be terminated with limited or no notice and without significant termination payments. If our members reduce activity levels or terminate or elect not to renew their contracts, our revenue and results of operations may decrease.***

As part of the Orion acquisition in 2018, we acquired GPO program relationships. The GPO participation agreements are generally for an initial two-year term, and the option to renew for additional one-year terms. The GPO participation agreements are generally terminable by either party by providing written notice to the other.

There can be no assurance that the members will extend or renew their GPO participation agreements. Failure of these members to renew their GPO participation agreements may have a small impact on our revenue and results of operations.

Our success in retaining member participation in our GPO program depends upon our reputation, strong relationships with such members and our ability to deliver consistent, reliable and high quality products and services; a failure in any of these areas may result in the loss of members. In addition, members may seek to reduce, cancel or elect not to renew their contracts due to factors that are beyond our control and are unrelated to our performance, including their business or financial condition, changes in their strategies or business plans, their acquisition, or economic conditions in general. When contracts are reduced, canceled or not renewed for any reason, we lose the anticipated future revenue associated with such contracts and consequently, our revenue and results of operations may decrease.

***We rely on the administrative fees we receive from our GPO suppliers, and the failure to maintain contracts with these GPO suppliers could have a generally negative effect on our relationships with our members and could affect our business, financial condition and results of operations.***

We derive some of our revenue from the administrative fees that we receive from our GPO suppliers. We maintain contractual relationships with these suppliers which provide products and services to our members at reduced costs and which pay us administrative fees based on the dollars spent by our members for such products and services. Our contracts with these GPO suppliers generally may be terminated upon 90 days' notice. A termination of any relationship or agreement with a GPO supplier would result in the loss of administrative fees. In addition, if we lose a relationship with a GPO supplier, we may not be able to negotiate similar arrangements for our members and our ability to maintain our member agreements may be impacted.

***As a result of our variable sales and implementation cycles, we may be unable to recognize revenue from prospective customers on a timely basis and we may not be able to offset expenditures.***

The sales cycle for our services can be variable, typically ranging from two to four months from initial contact with a potential customer to contract execution, although this period can be substantially longer. During the sales cycle, we expend time and resources in an attempt to obtain a customer without recognizing revenue from that customer to offset such expenditures. Our implementation cycle is also variable, typically ranging from two to four months from contract execution to completion of implementation. Each customer's situation is different, and unanticipated difficulties and delays may arise as a result of a failure by us or by the customer to meet our respective implementation responsibilities. During the implementation cycle, we expend substantial time, effort, and financial resources implementing our services without recognizing revenue. Even following implementation, there can be no assurance that we will recognize revenue on a timely basis or at all from our efforts. In addition, cancellation of any implementation after it has begun may involve loss to us of time, effort, and expenses invested in the canceled implementation process, and lost opportunity for implementing paying customers in that same period of time.

**As a result of the Wayfair decision and changes in various states' laws, we are required to collect sales and use taxes on certain products and services we sell in certain jurisdictions. We may be subject to liability for past sales and incur additional related costs and expenses, and our future sales may decrease.**

We may lose sales or incur significant expenses should states be successful in imposing additional state sales and use taxes on our products and services. A successful assertion by one or more states that we should collect sales or other taxes on the sale of our products and services that we are currently not collecting could result in substantial tax liabilities for past sales, decrease our ability to compete with healthcare IT vendors not subject to sales and use taxes, and otherwise harm our business. Each state has different rules and regulations governing sales and use taxes, and these rules and regulations are subject to varying interpretations that may change over time. We review these rules and regulations periodically and, when we believe that our products or services are subject to sales and use taxes in a particular state, we voluntarily approach state tax authorities in order to determine how to comply with their rules and regulations. We cannot assure you that we will not be subject to sales and use taxes or related penalties for past sales in states where we believe no compliance is necessary.

If the federal government were to impose a tax on imports or services performed abroad, we might be subject to additional liabilities. At this time, there is no way to predict whether this will occur or estimate the impact on our business.

Vendors of products and services like us are typically held responsible by taxing authorities for the collection and payment of any applicable sales and similar taxes. If one or more taxing authorities determines that taxes should have, but have not, been paid with respect to our products or services, we may be liable for past taxes in addition to taxes going forward. Liability for past taxes may also include very substantial interest and penalty charges. Nevertheless, customers may be reluctant to pay back taxes and may refuse responsibility for interest or penalties associated with those taxes. If we are required to collect and pay back taxes and the associated interest and penalties, and if our customers fail or refuse to reimburse us for all or a portion of these amounts, we will have incurred unplanned expenses that may be substantial. Moreover, imposition of such taxes on our products and services going forward will effectively increase the cost of those products and services to our customers and may adversely affect our ability to retain existing customers or to gain new customers in the states in which such taxes are imposed.

We may also become subject to tax audits or similar procedures in states where we already pay sales and use taxes. The incurrence of additional accounting and legal costs and related expenses in connection with, and the assessment of, taxes, interest, and penalties as a result of audits, litigation, or otherwise could be materially adverse to our current and future results of operations and financial condition.

***If we lose the services of Mahmud Haq or other members of our management team, or if we are unable to attract, hire, integrate and retain other necessary employees, our business would be harmed.***

Our future success depends in part on our ability to attract, hire, integrate and retain the members of our management team and other qualified personnel. In particular, we are dependent on the services of Mahmud Haq, our founder, principal stockholder and Executive Chairman, Stephen Snyder, our Chief Executive Officer and A. Hadi Chaudhry, our President. Mr. Haq is instrumental in managing our offshore operations in Pakistan and coordinating those operations with our U.S. activities. The loss of Mr. Haq, who would be particularly difficult to replace, could negatively impact our ability to effectively manage our cost-effective workforce in Pakistan, which enables us to provide our products and solutions at attractive prices. Our future success also depends on the continued contributions of our other executive officers and certain key employees, each of whom may be difficult to replace, and upon our ability to attract and retain additional management personnel. Competition for such personnel is intense, and we compete for qualified personnel with other employers. We may face difficulty identifying and hiring qualified personnel at compensation levels consistent with our existing compensation and salary structure. If we fail to retain our employees, we could incur significant expenses in hiring, integrating and training their replacements, and the quality of our services and our ability to serve our customers could diminish, resulting in a material adverse effect on our business.

**We may be unable to adequately establish, protect or enforce our patents, trade secrets and other intellectual property rights.**

Our success depends in part upon our ability to establish, protect and enforce our patents, trade secrets and other intellectual property and proprietary rights. If we fail to establish, protect or enforce these rights, we may lose customers and important advantages in the market in which we compete. We rely on a combination of patent, trademark, copyright and trade secret law and contractual obligations to protect our key intellectual property rights, all of which provide only limited protection. Our intellectual property rights may not be sufficient to help us maintain our position in the market and our competitive advantages.

Trade secrets may not be protectable if not properly kept confidential. We strive to enter into non-disclosure agreements with our employees, customers, contractors and business partners to limit access to and disclosure of our proprietary information. However, the steps we have taken may not be sufficient to prevent unauthorized use of our customer information, technology, and adequate remedies may not be available in the event of unauthorized use or disclosure of our trade secrets and proprietary information. Our ability to protect the trade secrets of our acquired companies from disclosure by the former employees of these acquired entities may be limited by law in the jurisdiction in which the acquired company and/or former employee resides, and/or where the disclosure occurred, and this leaves us vulnerable to the solicitation of the customers we acquire by former employees of the acquired business that join our competitors.

Accordingly, despite our efforts, we may be unable to prevent third-parties from using our intellectual property for their competitive advantage. Any such use could have a material adverse effect on our business, results of operations and financial condition. Monitoring unauthorized uses of and enforcing our intellectual property rights can be difficult and costly. Legal intellectual property actions are inherently uncertain and may not be successful, and may require a substantial amount of resources and divert our management's attention.

***Claims by others that we infringe their intellectual property could force us to incur significant costs or revise the way we conduct our business.***

Our competitors protect their proprietary rights by means of patents, trade secrets, copyrights, trademarks and other intellectual property. We have not conducted an independent review of patents and other intellectual property issued to third-parties, who may have patents or patent applications relating to our proprietary technology. We may receive letters from third parties alleging, or inquiring about, possible infringement, misappropriation or violation of their intellectual property rights. Any party asserting that we infringe, misappropriate or violate proprietary rights may force us to defend ourselves, and potentially our customers, against the alleged claim. These claims and any resulting lawsuit, if successful, could subject us to significant liability for damages and/or invalidation of our proprietary rights or interruption or cessation of our operations. Any such claims or lawsuit could:

- be time-consuming and expensive to defend, whether meritorious or not;
- require us to stop providing products or services that use the technology that allegedly infringes the other party's intellectual property;
- divert the attention of our technical and managerial resources;
- require us to enter into royalty or licensing agreements with third-parties, which may not be available on terms that we deem acceptable;
- prevent us from operating all or a portion of our business or force us to redesign our products, services or technology platforms, which could be difficult and expensive and may make the performance or value of our product or service offerings less attractive;
- subject us to significant liability for damages or result in significant settlement payments; and/or
- require us to indemnify our customers.

Furthermore, during the course of litigation, confidential information may be disclosed in the form of documents or testimony in connection with discovery requests, depositions or trial testimony. Disclosure of our confidential information and our involvement in intellectual property litigation could materially adversely affect our business. Some of our competitors may be able to sustain the costs of intellectual property litigation more effectively than we can because they have substantially greater resources. In addition, any litigation could significantly harm our relationships with current and prospective customers. Any of the foregoing could disrupt our business and have a material adverse effect on our business, operating results and financial condition.

***We may be unable to protect, and we may incur significant costs in enforcing, our intellectual property rights.***

Our patents, trademarks, trade secrets, copyrights, and other intellectual property rights are important assets to us. Various events outside of our control pose a threat to our intellectual property rights, as well as to our products, services, and technologies. For instance, any of our current or future intellectual property rights may be challenged by others or invalidated through administrative process or litigation. Any of our pending or future patent applications, whether or not being currently challenged, may not be issued with the scope of the claims we seek, if at all.

We have taken efforts to protect our proprietary rights, including a combination of license agreements, confidentiality policies and procedures, confidentiality provisions in employment agreements, confidentiality agreements with third parties, and technical security measures, as well as our reliance on copyright, patent, trademark, trade secret and unfair competition laws. These efforts may not be sufficient or effective. For example, the secrecy of our trade secrets or other confidential information could be compromised by our employees or by third parties, which could cause us to lose the competitive advantage resulting from those trade secrets or confidential information. Unauthorized third parties may try to copy or reverse engineer portions of our products or otherwise infringe upon, misappropriate or use our intellectual property. We may not be able to discover or determine the extent of any unauthorized use of our proprietary rights. We may also conclude that, in some instances, the benefits of protecting our intellectual property rights may be outweighed by the expense.

In addition, our platforms incorporate "open source" software components that are licensed to us under various public domain licenses. Open source license terms are often ambiguous, and there is little or no legal precedent governing the interpretation of many of the terms of certain of these licenses. Therefore, the potential impact of such terms on our business is somewhat unknown. Further, some enterprises may be reluctant or unwilling to use cloud-based services, because they have concerns regarding the risks associated with the security and reliability, among other things, of the technology delivery model associated with these services. If enterprises do not perceive the benefits of our services, then the market for these services may not expand as much or develop as quickly as we expect, either of which would adversely affect our business, financial condition, or operating results.

Legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain and still evolving. The laws of some foreign countries may not be as protective of intellectual property rights as those in the United States, and effective intellectual property protection may not be available in every country in which our products and services are distributed.

Any impairment of our intellectual property rights, or our failure to protect our intellectual property rights adequately, could give our competitors' access to our technology and could materially and adversely impact our business and operating results. Any increase in the unauthorized use of our intellectual property could also divert the efforts of our technical and management personnel and result in significant additional expense to us, which could materially and adversely impact our operating results. Finally, we may be required to spend significant resources to monitor and protect our intellectual property rights, including with respect to legal proceedings, which could result in substantial costs and diversion of resources and could materially and adversely impact our business, financial condition and operating results.

***Current and future litigation against us could be costly and time-consuming to defend and could result in additional liabilities.***

We may from time to time be subject to legal proceedings and claims that arise in the ordinary course of business, such as claims brought by current and former clients in connection with commercial disputes and employment claims made by our current or former employees. Claims may also be asserted by or on behalf of a variety of other parties, including government agencies, patients of our physician clients, stockholders, the sellers of the businesses that we acquire, or the creditors of the businesses we acquire. Any litigation involving us may result in substantial costs and may divert management's attention and resources, which may seriously harm our business, overall financial condition, and operating results. Insurance may not cover existing or future claims, be sufficient to fully compensate us for one or more of such claims, or continue to be available on terms acceptable to us. A claim brought against us that is uninsured or underinsured could result in unanticipated costs, thereby reducing our operating results and leading analysts or potential investors to reduce their expectations of our performance resulting in a reduction in the trading price of our stock.

***Our proprietary software or service delivery platform (including the platform we acquired through CareCloud) may not operate properly, which could damage our reputation, give rise to claims against us, or divert application of our resources from other purposes, any of which could harm our business and operating results.***

We may encounter human or technical obstacles that prevent our proprietary or acquired applications from operating properly. If our applications do not function reliably or fail to achieve customer expectations in terms of performance, customers could assert liability claims against us or attempt to cancel their contracts with us. This could damage our reputation and impair our ability to attract or maintain customers.

There are particular risks when we inherit technologies through the companies we acquire. These technologies, often developed by distressed companies, were not created under our direct supervision and control and therefore may not have been developed in accordance with our standards. Such acquired technologies could, and at times do, contain operational deficiencies, defects, glitches or bugs that may not be discovered immediately or otherwise could have been avoided had we built the technology ourselves. Whether technology we develop or technology we acquire, we will need to replace certain components and remediate software defects or bugs from time to time. There can be no assurance that such defects or bugs, or the process of remediating them, will not have a material impact on our business. Our inability to promptly and cost-effectively correct a product defect could result in the Company having to withdraw an important product from market, damage to our reputation, and result in material costs and expenses, any of which could have a material impact on our revenue, margins, and operating results.

Moreover, information services as complex as those we offer have in the past contained, and may in the future develop or contain, undetected defects or errors. We cannot assure you that material performance problems or defects in our products or services will not arise in the future. Errors may result from receipt, entry, or interpretation of patient information or from interface of our services with legacy systems and data that we did not develop and the function of which is outside of our control. Despite testing, defects or errors may arise in our existing or new software or service processes. Because changes in payer requirements and practices are frequent and sometimes difficult to determine except through trial and error, we are continuously discovering defects and errors in our software and service processes compared against these requirements and practices. These defects and errors and any failure by us to identify and address them could result in loss of revenue or market share, liability to customers or others, failure to achieve market acceptance or expansion, diversion of development resources, injury to our reputation, and increased service and maintenance costs. Defects or errors in our software might discourage existing or potential customers from purchasing our products and services. Correction of defects or errors could prove to be impossible or impracticable. The costs incurred in correcting any defects or errors or in responding to resulting claims or liability may be substantial and could adversely affect our operating results.

In addition, customers relying on our services to collect, manage, and report clinical, business, and administrative data may have a greater sensitivity to service errors and security vulnerabilities than customers of software products in general. We market and sell services that, among other things, provide information to assist healthcare providers in tracking and treating patients. Any operational delay in or failure of our technology or service processes may result in the disruption of patient care and could cause harm to patients and thereby create unforeseen liabilities for our business.

Our customers or their patients may assert claims against us alleging that they suffered damages due to a defect, error, or other failure of our software or service processes. A product liability claim or errors or omissions claim could subject us to significant legal defense costs and adverse publicity, regardless of the merits or eventual outcome of such a claim.

Our physicians have relied on our platforms (including the platform we acquired through CareCloud) as being certified by the office of the National Coordinator for Health Information Technology ("ONC"). If this certification were to be challenged, we might face liability related to any incentive that the physicians received in reliance upon such certification.

***If our security measures are breached or fail and unauthorized access is obtained to a customer's data, our service may be perceived as insecure, the attractiveness of our services to current or potential customers may be reduced, and we may incur significant liabilities.***

Our services involve the web-based storage and transmission of customers' proprietary information and patient information, including health, financial, payment and other personal or confidential information. We rely on proprietary and commercially available systems, software, tools and monitoring, as well as other processes, to provide security for processing, transmission and storage of such information. Because of the sensitivity of this information and due to requirements under applicable laws and regulations, the effectiveness of our security efforts is very important. We maintain servers, which store customers' data, including patient health records, in the U.S. and offshore. We also process, transmit and store some data of our customers on servers and networks that are owned and controlled by third-party contractors in India and elsewhere. If our security measures are breached or fail as a result of third-party action, acts of terror, social unrest, employee error, malfeasance or for any other reasons, someone may be able to obtain unauthorized access to customer or patient data. Improper activities by third-parties, advances in computer and software capabilities and encryption technology, new tools and discoveries and other events or developments may facilitate or result in a compromise or breach of our security systems. Our security measures may not be effective in preventing unauthorized access to the customer and patient data stored on our servers. If a breach of our security occurs, we could face damages for contract breach, penalties for violation of applicable laws or regulations, possible lawsuits by individuals affected by the breach and significant remediation costs and efforts to prevent future occurrences. In addition, whether there is an actual or a perceived breach of our security, the market perception of the effectiveness of our security measures could be harmed and we could lose current or potential customers.

***Our products and services are required to meet the interoperability standards, which could require us to incur substantial additional development costs or result in a decrease in revenue.***

Our customers and the industry leaders enacting regulatory requirements are concerned with and often require that our products and services be interoperable with other third-party healthcare information technology suppliers. Market forces or regulatory authorities could create software interoperability standards that would apply to our solutions, and if our products and services are not consistent with those standards, we could be forced to incur substantial additional development costs. There currently exists a comprehensive set of criteria for the functionality, interoperability and security of various software modules in the healthcare information technology industry. However, those standards are subject to continuous modification and refinement. Achieving and maintaining compliance with industry interoperability standards and related requirements could result in larger than expected software development expenses and administrative expenses in order to conform to these requirements. These standards and specifications, once finalized, will be subject to interpretation by the entities designated to certify such technology. We will incur increased development costs in delivering solutions if we need to change or enhance our products and services to be in compliance with these varying and evolving standards. If our products and services are not consistent with these evolving standards, our market position and sales could be impaired and we may have to invest significantly in changes to our solutions.

***Disruptions in Internet or telecommunication service or damage to our data centers could adversely affect our business by reducing our customers' confidence in the reliability of our services and products.***

Our information technologies and systems are vulnerable to damage or interruption from various causes, including acts of God and other natural disasters, war and acts of terrorism and power losses, computer systems failures, internet and telecommunications or data network failures, operator error, losses of and corruption of data and similar events. Our customers' data, including patient health records, reside on our own servers located in the U.S., Pakistan and Sri Lanka. Although we conduct business continuity planning to protect against fires, floods, other natural disasters and general business interruptions to mitigate the adverse effects of a disruption, relocation or change in operating environment at our data centers, the situations we plan for and the amount of insurance coverage we maintain may not be adequate in any particular case. In addition, the occurrence of any of these events could result in interruptions, delays or cessations in service to our customers. Any of these events could impair or prohibit our ability to provide our services, reduce the attractiveness of our services to current or potential customers and adversely impact our financial condition and results of operations.

In addition, despite the implementation of security measures, our infrastructure, data centers, or systems that we interface with or utilize, including the internet and related systems, may be vulnerable to physical break-ins, hackers, improper employee or contractor access, computer viruses, programming errors, denial-of-service attacks or other attacks by third-parties seeking to disrupt operations or misappropriate information or similar physical or electronic breaches of security. Any of these can cause system failure, including network, software or hardware failure, which can result in service disruptions. As a result, we may be required to expend significant capital and other resources to protect against security breaches and hackers or to alleviate problems caused by such breaches.

***We may be subject to liability for the content we provide to our customers and their patients.***

We provide content for use by healthcare providers in treating patients. This content includes, among other things, patient education materials, coding and drug databases developed by third-parties, and prepopulated templates providers can use to document as visits and record patient health information. If content in the third-party databases we use is incorrect or incomplete, adverse consequences, including death, may give rise to product liability and other claims against us. A court or government agency may take the position that our delivery of health information directly, including through licensed practitioners, or delivery of information by a third-party site that a consumer accesses through our solutions, exposes us to personal injury liability, or other liability for wrongful delivery or handling of healthcare services or erroneous health information. Our liability insurance coverage may not be adequate or continue to be available on acceptable terms, if at all. A claim brought against us that is uninsured or under-insured could harm our business. Even unsuccessful claims could result in substantial costs and diversion of management resources.

***We are subject to the effect of payer and provider conduct that we cannot control and that could damage our reputation with customers and result in liability claims that increase our expenses.***

We offer electronic claims submission services for which we rely on content from customers, payers, and others. While we have implemented features and safeguards designed to maximize the accuracy and completeness of claims content, these features and safeguards may not be sufficient to prevent inaccurate claims data from being submitted to payers. Should inaccurate claims data be submitted to payers, we may experience poor operational results and be subject to liability claims, which could damage our reputation with customers and result in liability claims that increase our expenses.

***Failure by our clients to obtain proper permissions and waivers may result in claims against us or may limit or prevent our use of data, which could harm our business.***

Our clients are obligated by applicable law to provide necessary notices and to obtain necessary permission waivers for use and disclosure of the information that we receive. If they do not obtain necessary permissions and waivers, then our use and disclosure of information that we receive from them or on their behalf may be limited or prohibited by state or federal privacy laws or other laws. This could impair our functions, processes, and databases that reflect, contain, or are based upon such data and may prevent use of such data. In addition, this could interfere with or prevent creation or use of rules, and analyses or limit other data-driven activities that benefit us. Moreover, we may be subject to claims or liability for use or disclosure of information by reason of lack of valid notice, permission, or waiver. These claims or liabilities could subject us to unexpected costs and adversely affect our operating results.

***Any deficiencies in our financial reporting or internal controls could adversely affect our business and the trading price of our securities.***

As a public company, we are required to maintain internal control over financial reporting and to report any material weaknesses in such internal controls. Section 404 of the Sarbanes-Oxley Act requires that we evaluate and determine the effectiveness of our internal control over financial reporting.

In the future, if we have a material weakness in our internal control over financial reporting, we may not detect errors on a timely basis and our financial statements may be materially misstated. In addition, our internal control over financial reporting would not prevent or detect all errors and fraud. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud will be detected.

If there are material weaknesses or failures in our ability to meet any of the requirements related to the maintenance and reporting of our internal controls, investors may lose confidence in the accuracy and completeness of our financial reports, which in turn could cause the price of our common stock and Series A Preferred Stock to decline. Moreover, effective internal controls are necessary to produce reliable financial reports and to prevent fraud. If we have deficiencies in our internal controls, it may negatively impact our business, results of operations and reputation. In addition, we could become subject to investigations by Nasdaq, the SEC or other regulatory authorities, which could require additional management attention and which could adversely affect our business.

***We are a party to several related-party agreements with our founder and Executive Chairman, Mahmud Haq, which have significant contractual obligations. These agreements are reviewed by our Audit Committee on an annual basis.***

Since inception, we have entered into several related-party transactions with our founder and Executive Chairman, Mahmud Haq, which subject us to significant contractual obligations. We believe these transactions reflect terms comparable to those that would be available from third parties. Our independent audit committee has reviewed these arrangements and continues to do so on an annual basis.

***We depend on key information systems and third party service providers.***

We depend on key information systems to accurately and efficiently transact our business, provide information to management and prepare financial reports. These systems and services are vulnerable to interruptions or other failures resulting from, among other things, natural disasters, terrorist attacks, software, equipment or telecommunications failures, processing errors, computer viruses, other security issues or supplier defaults. Security, backup and disaster recovery measures may not be adequate or implemented properly to avoid such disruptions or failures. Any disruption or failure of these systems or services could cause substantial errors, processing inefficiencies, security breaches, inability to use the systems or process transactions, loss of customers or other business disruptions, all of which could negatively affect our business and financial performance.

***Systems failures or cyberattacks and resulting interruptions in the availability of or degradation in the performance of our websites, applications, products or services could harm our business.***

As cybersecurity attacks continue to evolve and increase, our information systems could also be penetrated or compromised by internal and external parties' intent on extracting confidential information, disrupting business processes or corrupting information. Our systems may experience service interruptions or degradation due to hardware and software defects or malfunctions, computer denial-of-service and other cyberattacks, human error, earthquakes, hurricanes, floods, fires, natural disasters, power losses, disruptions in telecommunications services, fraud, military or political conflicts, terrorist attacks, computer viruses, or other events. Our systems are also subject to break-ins, sabotage and intentional acts of vandalism. Some of our systems are not fully redundant and our disaster recovery planning is not sufficient for all eventualities. We have experienced and will likely continue to experience system failures, denial of service attacks and other events or conditions from time to time that interrupt the availability or reduce the speed or functionality of our websites and mobile applications. These events likely will result in loss of revenue. A prolonged interruption in the availability or reduction in the speed or other functionality of our websites and mobile applications could materially harm our business. Frequent or persistent interruptions in our services could cause current or potential users to believe that our systems are unreliable, leading them to switch to our competitors or to avoid our sites, and could permanently harm our reputation and brands. Moreover, to the extent that any system failure or similar event results in damages to our customers or their businesses, these customers could seek significant compensation from us for their losses and those claims, even if unsuccessful, would likely be time-consuming and costly for us to address. These risks could arise from external parties or from acts or omissions of internal or service provider personnel. Such unauthorized access could disrupt our business and could result in the loss of assets, litigation, remediation costs, damage to our reputation and failure to retain or attract customers following such an event, which could adversely affect our business.

## **Regulatory Risks**

***The healthcare industry is heavily regulated. Our failure to comply with regulatory requirements could create liability for us, result in adverse publicity and negatively affect our business.***

The healthcare industry is heavily regulated and is constantly evolving due to the changing political, legislative, regulatory landscape and other factors. Many healthcare laws are complex, and their application to specific services and relationships may not be clear. In particular, many existing healthcare laws and regulations, when enacted, did not anticipate or address the services that we provide. Further, healthcare laws differ from state to state and it is difficult to ensure that our business, products and services comply with evolving laws in all states. By way of example, certain federal and state laws forbid billing based on referrals between individuals or entities that have various financial ownership, or other business relationships with healthcare providers. These laws vary widely from state to state, and one of the federal laws governing these relationships, known as the Stark Law, is very complex in its application. Similarly, many states have laws forbidding physicians from practicing medicine in partnership with non-physicians, such as business corporations, as well as laws or regulations forbidding splitting of physician fees with non-physicians or others. Other federal and state laws restrict assignment of claims for reimbursement from government-funded programs, the manner in which business service companies may handle payments for such claims and the methodology under which business services companies may be compensated for such services.

The Office of Inspector General ("OIG") of the Department of Health and Human Services ("HHS") has a longstanding concern that percentage-based billing arrangements may increase the risk of improper billing practices. In addition, certain states have adopted laws or regulations forbidding splitting of fees with non-physicians which may be interpreted to prevent business service providers, including medical billing providers, from using a percentage-based billing arrangement. The OIG and HHS recommend that medical billing companies develop and implement comprehensive compliance programs to mitigate this risk. While we have developed and implemented a comprehensive billing compliance program that we believe is consistent with these recommendations, our failure to ensure compliance with controlling legal requirements, accurately anticipate the application of these laws and regulations to our business and contracting model, or other failure to comply with regulatory requirements, could create liability for us, result in adverse publicity and negatively affect our business.

The federal Anti-Kickback Statute ("AKS") prohibits us from knowingly and willfully soliciting, receiving, offering or providing remuneration in exchange for referrals or recommendations for purposes of selling products or services which are paid for by federal healthcare programs such as Medicare and Medicaid. In addition, a claim including products or services resulting from a violation of AKS constitutes a violation of the federal False Claims Act ("FCA"). If we are determined to have violated the FCA, we may be required to pay up to three times the actual damages sustained by the government, plus mandatory civil penalties for each separate false claim. If we are found to be in violation of the FCA, AKS, ACA, or any other applicable state or any federal fraud and abuse laws, whether by our current practices or for the past practices of a company we acquire, we may be subject to substantial civil damages and criminal penalties and fines that could have a material adverse impact on our business.

In addition, federal and state legislatures and agencies periodically consider proposals to revise aspects of the healthcare industry or to revise or create additional statutory and regulatory requirements. For instance, the current administration may make changes to the ACA, the nature and scope of which are presently unknown. Similarly, certain computer software products are regulated as medical devices under the Federal Food, Drug, and Cosmetic Act. While the Food and Drug Administration ("FDA") has sometimes chosen to disclaim authority to, or to refrain from actively regulating certain software products which are similar to our products, this area of medical device regulation remains in flux. We expect that the FDA will continue to be active in exploring legal regimes for regulating computer software intended for use in healthcare settings. Any additional regulation can be expected to impose additional overhead costs on us and should we fail to adequately meet these legal obligations, we could face potential regulatory action. Regulatory authorities such as the Centers for Medicare and Medicaid Services may also impose functionality standards with regard to electronic prescribing technologies. If implemented, proposals like these could impact our operations, the use of our services and our ability to market new services, or could create unexpected liabilities for us. We cannot predict what changes to laws or regulations might be made in the future or how those changes could affect our business or our operating costs.

**If we do not maintain the certification of our EHR solution pursuant to the HITECH Act, our business, financial condition and results of operations will be adversely affected.**

The HITECH Act provides financial incentives for healthcare providers that demonstrate “meaningful use” of EHR and mandates use of health information technology systems that are certified according to technical standards developed under the supervision of the U.S. Department of Health and Human Services (“HHS”). The HITECH Act also imposes certain requirements upon governmental agencies to use, and requires healthcare providers, health plans, and insurers contracting with such agencies to use, systems that are certified according to such standards. Such standards and implementation specifications that are being developed under the HITECH Act includes named standards, architectures, and software schemes for the authentication and security of individually identifiable health information and the creation of common solutions across disparate entities.

The HITECH Act’s certification requirements affect our business because we have invested and continue to invest in conforming our products and services to these standards. HHS has developed certification programs for electronic health records and health information exchanges. Our web-based EHR solution has been certified as a complete EHR by ICSA Labs, a non-governmental, independent certifying body. We must ensure that our EHR solutions continue to be certified according to applicable HITECH Act technical standards so that our customers qualify for any “meaningful use” incentive payments and are not subject to penalties for non-compliance. Failure to maintain this certification under the HITECH Act could jeopardize our relationships with customers who are relying upon us to provide certified software, and will make our products and services less attractive to customers than the offerings of other EHR vendors who maintain certification of their products.

***If a breach of our measures protecting personal data covered by HIPAA or the HITECH Act occurs, we may incur significant liabilities.***

The Health Insurance Portability and Accountability Act of 1996, as amended (“HIPAA”), and the regulations that have been issued under it contain substantial restrictions and requirements with respect to the use, collection, storage and disclosure of individuals’ protected health information. Under HIPAA, covered entities must establish administrative, physical and technical safeguards to protect the confidentiality, integrity and availability of electronic protected health information maintained or transmitted by them or by others on their behalf. In February 2009, HIPAA was amended by the HITECH Act to add provisions that impose certain of HIPAA’s privacy and security requirements directly upon business associates of covered entities. Under HIPAA and the HITECH Act, our customers are covered entities and we are a business associate of our customers as a result of our contractual obligations to perform certain services for those customers. The HITECH Act transferred enforcement authority of the security rule from CMS to the Office for Civil Rights of HHS, thereby consolidating authority over the privacy and security rules under a single office within HHS. Further, HITECH empowered state attorneys’ general to enforce HIPAA.

The HITECH Act heightened enforcement of privacy and security rules, indicating that the imposition of penalties will be more common in the future and such penalties will be more severe. For example, the HITECH Act requires that the HHS fully investigate all complaints if a preliminary investigation of the facts indicates a possible violation due to “willful neglect” and imposes penalties if such neglect is found. Further, where our liability as a business associate to our customers was previously merely contractual in nature, the HITECH Act now treats the breach of duty under an agreement by a business associate to carry the same liability as if the covered entity engaged in the breach. In other words, as a business associate, we are now directly responsible for complying with HIPAA. We may find ourselves subject to increased liability as a possible liable party and we may incur increased costs as we perform our obligations to our customers under our agreements with them.

Finally, regulations also require business associates to notify covered entities, who in turn must notify affected individuals and government authorities of data security breaches involving unsecured protected health information. We have performed an assessment of the potential risks and vulnerabilities to the confidentiality, integrity and availability of electronic health information. In response to this risk analysis, we implemented and maintain physical, technical and administrative safeguards intended to protect all personal data and have processes in place to assist us in complying with applicable laws and regulations regarding the protection of this data and properly responding to any security incidents. If we knowingly breach the HITECH Act’s requirements, we could be exposed to criminal liability. A breach of our safeguards and processes could expose us to civil penalties of up to \$1.5 million for each incident and the possibility of civil litigation.

**If we or our customers fail to comply with federal and state laws governing submission of false or fraudulent claims to government healthcare programs and financial relationships among healthcare providers, we or our customers may be subject to civil and criminal penalties or loss of eligibility to participate in government healthcare programs.**

As a participant in the healthcare industry, our operations and relationships, and those of our customers, are regulated by a number of federal, state and local governmental entities. The impact of these regulations can adversely affect us even though we may not be directly regulated by specific healthcare laws and regulations. We must ensure that our products and services can be used by our customers in a manner that complies with those laws and regulations. Inability of our customers to do so could affect the marketability of our products and services or our compliance with our customer contracts, or even expose us to direct liability under the theory that we had assisted our customers in a violation of healthcare laws or regulations. A number of federal and state laws, including anti-kickback restrictions and laws prohibiting the submission of false or fraudulent claims, apply to healthcare providers and others that make, offer, seek or receive referrals or payments for products or services that may be paid for through any federal or state healthcare program and, in some instances, any private program. These laws are complex and their application to our specific services and relationships may not be clear and may be applied to our business in ways that we do not anticipate. Federal and state regulatory and law enforcement authorities have recently increased enforcement activities with respect to Medicare and Medicaid fraud and abuse regulations and other healthcare reimbursement laws and rules. From time to time, participants in the healthcare industry receive inquiries or subpoenas to produce documents in connection with government investigations. We could be required to expend significant time and resources to comply with these requests, and the attention of our management team could be diverted by these efforts. The occurrence of any of these events could give our customers the right to terminate our contracts with us and result in significant harm to our business and financial condition.

These laws and regulations may change rapidly, and it is frequently unclear how they apply to our business. Any failure of our products or services to comply with these laws and regulations could result in substantial civil or criminal liability and could, among other things, adversely affect demand for our services, invalidate all or portions of some of our contracts with our customers, require us to change or terminate some portions of our business, require us to refund portions of our revenue, cause us to be disqualified from serving customers doing business with government payers, and give our customers the right to terminate our contracts with them, any one of which could have an adverse effect on our business.

**Potential healthcare reform and new regulatory requirements placed on our products and services could increase our costs, delay or prevent our introduction of new products or services, and impair the function or value of our existing products and services.**

Our products and services may be significantly impacted by healthcare reform initiatives and will be subject to increasing regulatory requirements, either of which could negatively impact our business in a multitude of ways. If substantive healthcare reform or applicable regulatory requirements are adopted, we may have to change or adapt our products and services to comply. Reform or changing regulatory requirements may also render our products or services obsolete or may block us from accomplishing our work or from developing new products or services. This may in turn impose additional costs upon us to adapt to the new operating environment or to further develop or modify our products and services. Such reforms may also make introduction of new products and service more costly or more time-consuming than we currently anticipate. These changes may also prevent our introduction of new products and services or make the continuation or maintenance of our existing products and services unprofitable or impossible.

**Additional regulation of the disclosure of medical information outside the United States may adversely affect our operations and may increase our costs.**

Federal or state governmental authorities may impose additional data security standards or additional privacy or other restrictions on the collection, use, transmission, and other disclosures of medical information. Legislation has been proposed at various times at both the federal and the state level that would limit, forbid, or regulate the use or transmission of medical information outside of the United States. Such legislation, if adopted, may render our use of our servers in offshore offices for work related to such data impracticable or substantially more expensive. Alternative processing of such information within the United States may involve substantial delay in implementation and increased cost.

***Our services present the potential for embezzlement, identity theft, or other similar illegal behavior by our employees.***

Among other things, our services from time to time involve handling mail from payers and payments from patients for our customers, and this mail frequently includes original checks and credit card information and occasionally includes currency. Where requested, we deposit payments and process credit card transactions from patients on behalf of customers and then forward these payments to the customers. Even in those cases in which we do not handle original documents or mail, our services also involve the use and disclosure of personal and business information that could be used to impersonate third parties or otherwise gain access to their data or funds. The manner in which we store and use certain financial information is governed by various federal and state laws. If any of our employees takes, converts, or misuses such funds, documents, or data, we could be liable for damages, subject to regulatory actions and penalties, and our business reputation could be damaged or destroyed. In addition, we could be perceived to have facilitated or participated in illegal misappropriation of funds, documents, or data and therefore be subject to civil or criminal liability.

#### **Risks Related to Ownership of Shares of Our Common Stock**

***Our revenues, operating results and cash flows may fluctuate in future periods and we may fail to meet investor expectations, which may cause the price of our common stock to decline.***

Variations in our quarterly and year-end operating results are difficult to predict and may fluctuate significantly from period to period. If our sales or operating results fall below the expectations of investors or securities analysts, the price of our common stock could decline substantially. Specific factors that may cause fluctuations in our operating results include:

- demand and pricing for our products and services;
- government or commercial healthcare reimbursement policies;
- physician and patient acceptance of any of our current or future products;
- introduction of competing products;
- our operating expenses which fluctuate due to growth of our business;
- timing and size of any new product or technology acquisitions we may complete; and
- variable sales cycle and implementation periods for our products and services.

***Future sales of shares of our common stock could depress the market price of our common stock.***

Sales of a substantial number of shares of our common stock in the public market could occur at any time. If our stockholders sell, or the market perceives that our stockholders intend to sell, substantial amounts of our common stock in the public market, the market price of our common stock could decline significantly.

***Mahmud Haq currently controls 40.2% of our outstanding shares of common stock, which will prevent investors from influencing significant corporate decisions.***

Mahmud Haq, our founder and Executive Chairman, beneficially owns 40.2% of our outstanding shares of common stock. As a result, Mr. Haq exercises a significant level of control over all matters requiring stockholder approval, including the election of directors, amendment of our certificate of incorporation, and approval of significant corporate transactions. This control could have the effect of delaying or preventing a change of control of our company or changes in management, and will make the approval of certain transactions difficult or impossible without his support, which in turn could reduce the price of our common stock.

***Provisions of Delaware law, of our amended and restated charter and amended and restated bylaws may make a takeover more difficult, which could cause our common stock price to decline.***

Provisions in our amended and restated certificate of incorporation and amended and restated bylaws and in the Delaware General Corporation Law ("DGCL") may make it difficult and expensive for a third party to pursue a tender offer, change in control or takeover attempt, which is opposed by management and the Board of Directors. Public stockholders who might desire to participate in such a transaction may not have an opportunity to do so. We have a staggered Board of Directors that makes it difficult for stockholders to change the composition of the Board of Directors in any one year. Further, our amended and restated certificate of incorporation provides for the removal of a director only for cause upon the affirmative vote of the holders of at least 50.1% of the outstanding shares entitled to cast their vote for the election of directors, which may discourage a third party from making a tender offer or otherwise attempting to obtain control of us. These and other anti-takeover provisions could substantially impede the ability of public stockholders to change our management and Board of Directors. Such provisions may also limit the price that investors might be willing to pay for shares of our Series A Preferred Stock in the future.

***Any issuance of additional preferred stock in the future may dilute the rights of our existing stockholders.***

Our Board of Directors has the authority to issue up to 7,000,000 shares of preferred stock and to determine the price, privileges and other terms of these shares, of which 2,539,325 shares have been issued as of December 31, 2019. Our Board of Directors may exercise its authority with respect to the remaining shares of preferred stock without any further approval of common stockholders. The rights of the holders of common stock may be adversely affected by the rights of future holders of preferred stock.

***We do not intend to pay cash dividends on our common stock.***

Currently, we do not anticipate paying any cash dividends to holders of our common stock. As a result, capital appreciation, if any, of our common stock will be a stockholder's sole source of gain.

***Complying with the laws and regulations affecting public companies will increase our costs and the demands on management and could harm our operating results.***

As a public company, we continue to incur significant legal, accounting, and other expenses. In addition, the Sarbanes-Oxley Act and rules subsequently implemented by the SEC and the Nasdaq Stock Market impose various requirements on public companies, including requiring changes in corporate governance practices. Our management and other personnel devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations have increased and will continue to increase our legal, accounting, and financial compliance costs and have made and will continue to make some activities more time-consuming and costly. For example, these rules and regulations make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or to incur substantial costs to maintain the same or similar coverage. These rules and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our Board of Directors or our board committees or as executive officers.

In addition, the Sarbanes-Oxley Act requires, among other things, that we assess the effectiveness of our internal control over financial reporting annually and the effectiveness of our disclosure controls and procedures quarterly. In particular, for the year ended December 31, 2019, we performed system and process evaluation and testing of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, or Section 404. As an "emerging growth company" in previous years, we elected to avail ourselves of the exemption from the requirement that our independent registered public accounting firm attest to the effectiveness of our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act. However, we may no longer avail ourselves of this exemption as we ceased to be an "emerging growth company" and are now a "smaller reporting company." Although we are still currently exempt from the requirement to have our independent registered public accounting firm attest to the effectiveness of our internal control over financial reporting, when our independent registered public accounting firm is required to undertake such an assessment, the cost of our compliance with Section 404 will correspondingly increase. Our compliance with applicable provisions of Section 404 requires that we incur substantial accounting expense and expend significant management time on compliance-related issues and stay in compliance with reporting requirements. Moreover, if we are not able to stay in compliance with the requirements of Section 404 applicable to us in a timely manner, or if we or our independent registered public accounting firm identifies any deficiency(ies) in our internal control over financial reporting that are deemed to be material weakness(es), the market price of our stock could decline and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

Furthermore, investor perceptions of our Company may suffer if deficiencies are found, and this could cause a decline in the market price of our common and preferred stock. Irrespective of compliance with Section 404, any failure of our internal control over financial reporting could have a material adverse effect on our stated operating results and harm our reputation. If we are unable to implement these changes effectively or efficiently, it could harm our operations, financial reporting, or financial results and could result in an adverse opinion on internal control from our independent registered public accounting firm.

We remained an “emerging growth company” until December 31 of 2019, under the Securities and Exchange Act of 1934, as amended, or the Exchange Act. While we were an “emerging growth company” as defined in the JOBS Act, we were able to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth companies” including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a non-binding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved.

***We are a smaller reporting company and we cannot be certain if the reduced disclosure requirements applicable to smaller reporting companies will make our common stock less attractive to investors.***

While we have ceased being an emerging growth company as of December 31, 2019, many of the exemptions available for emerging growth companies are also available to smaller reporting companies like us that have less than \$250 million of worldwide common equity held by non-affiliates. The disclosures we will be required to provide in our SEC filings will increase, but will still be less than it would be if we were not considered a smaller reporting company. Specifically, similar to emerging growth companies, smaller reporting companies are able to provide simplified executive compensation disclosures in their filings; are exempt from the provisions of Section 404 requiring that independent registered public accounting firms provide an attestation reporting on the effectiveness of internal control over financial reporting, and have certain other decreased disclosure obligations in their SEC filings. Our status as a smaller reporting company may make it harder for investors to analyze our results of operations and financial prospects. We cannot predict if investors will find our common stock less attractive because we will rely on the exemption available to smaller reporting companies. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

#### **Risks Related to Ownership of Shares of Our Preferred Stock**

***The Series A Preferred Stock ranks junior to all of our indebtedness and other liabilities.***

In the event of our bankruptcy, liquidation, dissolution or winding-up of our affairs, our assets will be available to pay obligations on the Series A Preferred Stock only after all of our indebtedness and other liabilities have been paid. The rights of holders of the Series A Preferred Stock to participate in the distribution of our assets will rank junior to the prior claims of our current and future creditors and any future series or class of preferred stock we may issue that ranks senior to the Series A Preferred Stock. Also, the Series A Preferred Stock effectively ranks junior to all existing and future indebtedness and to the indebtedness and other liabilities of our existing subsidiaries and any future subsidiaries. Our existing subsidiaries are, and future subsidiaries would be, separate legal entities and have no legal obligation to pay any amounts to us in respect of dividends due on the Series A Preferred Stock. If we are forced to liquidate our assets to pay our creditors, we may not have sufficient assets to pay amounts due on any or all of the Series A Preferred Stock then outstanding. We may in the future incur debt and other obligations that will rank senior to the Series A Preferred Stock. At December 31, 2019, our total liabilities (excluding contingent consideration) equaled approximately \$13.6 million.

Certain of our existing or future debt instruments may restrict the authorization, payment or setting apart of dividends on the Series A Preferred Stock. Our Credit Agreement with Silicon Valley Bank (“SVB”) restricts the payment of dividends in the event of any event of default, including failure to meet certain financial covenants. There can be no assurance that we will remain in compliance with the SVB Credit Agreement, and if we default, we may be contractually prohibited from paying dividends on the Series A Preferred Stock. Also, future offerings of debt or senior equity securities may adversely affect the market price of the Series A Preferred Stock. If we decide to issue debt or senior equity securities in the future, it is possible that these securities will be governed by an indenture or other instruments containing covenants restricting our operating flexibility. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of the Series A Preferred Stock and may result in dilution to owners of the Series A Preferred Stock. We and, indirectly, our shareholders, will bear the cost of issuing and servicing such securities. Because our decision to issue debt or equity securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. The holders of the Series A Preferred Stock will bear the risk of our future offerings, which may reduce the market price of the Series A Preferred Stock and will dilute the value of their holdings in us.

***We may not be able to pay dividends on the Series A Preferred Stock if we fall out of compliance with our loan covenants and are prohibited by our bank lender from paying dividends or if we have insufficient cash to make dividend payments.***

Our ability to pay cash dividends on the Series A Preferred Stock requires us to have either net profits or positive net assets (total assets less total liabilities) over our capital, and to be able to pay our debts as they become due in the usual course of business. We cannot predict with certainty whether we will remain in compliance with the covenants of our senior secured lender, SVB, which include, among other things, generating adjusted EBITDA and complying with a minimum liquidity ratio. If we fall out of compliance, our lender may exercise any of its rights and remedies under the loan agreement, including restricting us from making dividend payments.

Further, notwithstanding these factors, we may not have sufficient cash to pay dividends on the Series A Preferred Stock. Our ability to pay dividends may be impaired if any of the risks described in this document, including the documents incorporated by reference herein, were to occur. Also, payment of our dividends depends upon our financial condition, remaining in compliance with our affirmative and negative loan covenants with SVB, which we may be unable to do in the future, and other factors as our Board of Directors may deem relevant from time to time. We cannot assure you that our businesses will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to make distributions on our common stock, if any, and preferred stock, including the Series A Preferred Stock to pay our indebtedness or to fund our other liquidity needs.

***The market for our Series A Preferred Stock may not provide investors with adequate liquidity.***

Our Series A Preferred Stock is listed on the Nasdaq Global Market. However, the trading market for the Series A Preferred Stock may not be maintained and may not provide investors with adequate liquidity. The liquidity of the market for the Series A Preferred Stock depends on a number of factors, including prevailing interest rates, our financial condition and operating results, the number of holders of the Series A Preferred Stock, the market for similar securities and the interest of securities dealers in making a market in the Series A Preferred Stock. We cannot predict the extent to which investor interest in our Company will maintain the trading market in our Series A Preferred Stock, or how liquid that market will be. If an active market is not maintained, investors may have difficulty selling shares of our Series A Preferred Stock.

***We may issue additional shares of Series A Preferred Stock and additional series of preferred stock that rank on parity with the Series A Preferred Stock as to dividend rights, rights upon liquidation or voting rights.***

We are allowed to issue additional shares of Series A Preferred Stock and additional series of preferred stock that would rank equal to or below the Series A Preferred Stock as to dividend payments and rights upon our liquidation, dissolution or winding up of our affairs pursuant to our amended and restated certificate of incorporation and the certificate of designations relating to the Series A Preferred Stock without any vote of the holders of the Series A Preferred Stock. Upon the affirmative vote of the holders of at least two-thirds of the outstanding shares of Series A Preferred Stock (voting together as a class with all other series of parity preferred stock we may issue upon which like voting rights have been conferred and are exercisable), we are allowed to issue additional series of preferred stock that would rank above the Series A Preferred Stock as to dividend payments and rights upon our liquidation, dissolution or the winding up of our affairs pursuant to our amended and restated certificate of incorporation and the certificate of designations relating to the Series A Preferred Stock. The issuance of additional shares of Series A Preferred Stock and additional series of preferred stock could have the effect of reducing the amounts available to the Series A Preferred Stock upon our liquidation or dissolution or the winding up of our affairs. It also may reduce dividend payments on the Series A Preferred Stock if we do not have sufficient funds to pay dividends on all Series A Preferred Stock outstanding and other classes or series of stock with equal priority with respect to dividends.

Also, although holders of Series A Preferred Stock are entitled to limited voting rights with respect to the circumstances under which the holders of Series A Preferred Stock are entitled to vote, the Series A Preferred Stock votes separately as a class along with all other series of our preferred stock that we may issue upon which like voting rights have been conferred and are exercisable. As a result, the voting rights of holders of Series A Preferred Stock may be significantly diluted, and the holders of such other series of preferred stock that we may issue may be able to control or significantly influence the outcome of any vote.

Future issuances and sales of senior or pari passu preferred stock, or the perception that such issuances and sales could occur, may cause prevailing market prices for the Series A Preferred Stock and our common stock to decline and may adversely affect our ability to raise additional capital in the financial markets at times and prices favorable to us.

***Market interest rates may materially and adversely affect the value of the Series A Preferred Stock.***

One of the factors that influences the price of the Series A Preferred Stock is the dividend yield on the Series A Preferred Stock (as a percentage of the market price of the Series A Preferred Stock) relative to market interest rates. An increase in market interest rates may lead prospective purchasers of the Series A Preferred Stock to expect a higher dividend yield (and higher interest rates would likely increase our borrowing costs and potentially decrease funds available for dividend payments). Thus, higher market interest rates could cause the market price of the Series A Preferred Stock to materially decrease.

***Holders of the Series A Preferred Stock may be unable to use the dividends-received deduction and may not be eligible for the preferential tax rates applicable to “qualified dividend income”.***

Distributions paid to corporate U.S. holders of the Series A Preferred Stock may be eligible for the dividends-received deduction, and distributions paid to non-corporate U.S. holders of the Series A Preferred Stock may be subject to tax at the preferential tax rates applicable to “qualified dividend income,” if we have current or accumulated earnings and profits, as determined for U.S. federal income tax purposes. We do not currently have such accumulated earnings and profits. Additionally, we may not have sufficient current earnings and profits during future fiscal years for the distributions on the Series A Preferred Stock to qualify as dividends for U.S. federal income tax purposes. If the distributions fail to qualify as dividends, U.S. holders would be unable to use the dividends-received deduction and may not be eligible for the preferential tax rates applicable to “qualified dividend income.” If any distributions on the Series A Preferred Stock with respect to any fiscal year are not eligible for the dividends-received deduction or preferential tax rates applicable to “qualified dividend income” because of insufficient current or accumulated earnings and profits, it is possible that the market value of the Series A Preferred Stock might decline.

***Our revenues, operating results and cash flows may fluctuate in future periods and we may fail to meet investor expectations, which may cause the price of our Series A Preferred Stock to decline.***

Variations in our quarterly and year-end operating results are difficult to predict and our income and cash flow may fluctuate significantly from period to period, which may impact our Board of Directors’ willingness or legal ability to declare a monthly dividend. If our operating results fall below the expectations of investors or securities analysts, the price of our Series A Preferred Stock could decline substantially. Specific factors that may cause fluctuations in our operating results include:

- demand and pricing for our products and services;
- government or commercial healthcare reimbursement policies;
- physician and patient acceptance of any of our current or future products;
- introduction of competing products;
- our operating expenses which fluctuate due to growth of our business;
- timing and size of any new product or technology acquisitions we may complete; and
- variable sales cycle and implementation periods for our products and services.

***Our Series A Preferred Stock has not been rated.***

We have not sought to obtain a rating for the Series A Preferred Stock. No assurance can be given, however, that one or more rating agencies might not independently determine to issue such a rating or that such a rating, if issued, would not adversely affect the market price of the Series A Preferred Stock. Also, we may elect in the future to obtain a rating for the Series A Preferred Stock, which could adversely affect the market price of the Series A Preferred Stock. Ratings only reflect the views of the rating agency or agencies issuing the ratings and such ratings could be revised downward, placed on a watch list or withdrawn entirely at the discretion of the issuing rating agency if in its judgment circumstances so warrant. Any such downward revision, placing on a watch list or withdrawal of a rating could have an adverse effect on the market price of the Series A Preferred Stock.

***We may redeem the Series A Preferred Stock on or after November 4, 2020***

On or after November 4, 2020, we may, at our option, redeem the Series A Preferred Stock, in whole or in part, at any time or from time to time. Also, upon the occurrence of a change of control, we may, at our option, redeem the Series A Preferred Stock, in whole or in part, within 120 days after the first date on which such change of control occurred. We may have an incentive to redeem the Series A Preferred Stock voluntarily if market conditions allow us to issue other preferred stock or debt securities at a rate that is lower than the dividend on the Series A Preferred Stock. If we redeem the Series A Preferred Stock, then from and after the redemption date, dividends will cease to accrue on shares of Series A Preferred Stock, the shares of Series A Preferred Stock shall no longer be deemed outstanding and all rights as a holder of those shares will terminate, except the right to receive the redemption price plus accumulated and unpaid dividends, if any, payable upon redemption.

***The market price of our Series A Preferred Stock is variable and could be substantially affected by various factors.***

The market price of our Series A Preferred Stock could be subject to wide fluctuations in response to numerous factors. These factors include, but are not limited to, the following:

- prevailing interest rates, increases in which may have an adverse effect on the market price of the Series A Preferred Stock;
- trading prices of similar securities;
- our history of timely dividend payments;
- the annual yield from dividends on the Series A Preferred Stock as compared to yields on other financial instruments;
- general economic and financial market conditions;
- government action or regulation;
- our financial condition, performance and prospects of our competitors;
- changes in financial estimates or recommendations by securities analysts with respect to us or our competitors in our industry;
- our issuance of additional preferred equity or debt securities; and
- actual or anticipated variations in quarterly operating results of us and our competitors.

***A holder of Series A Preferred Stock has extremely limited voting rights.***

The voting rights for a holder of Series A Preferred Stock are limited. Our shares of common stock are the only class of our securities that carry full voting rights, and Mahmud Haq, our Executive Chairman, beneficially owns approximately 40.2% of our outstanding shares of common stock. As a result, Mr. Haq exercises a significant level of control over all matters requiring stockholder approval, including the election of directors, amendment of our certificate of incorporation, and approval of significant corporate transactions. This control could have the effect of delaying or preventing a change of control of our company or changes in management, and will make the approval of certain transactions difficult or impossible without his support, which in turn could reduce the price of our Series A Preferred Stock.

Voting rights for holders of the Series A Preferred Stock exist primarily with respect to the ability to elect, voting together with the holders of any other series of our preferred stock having similar voting rights, two additional directors to our Board of Directors, subject to limitations, in the event that eighteen monthly dividends (whether or not consecutive) payable on the Series A Preferred Stock are in arrears, and with respect to voting on amendments to our articles of incorporation or articles of amendment relating to the Series A Preferred Stock that materially and adversely affect the rights of the holders of Series A Preferred Stock or authorize, increase or create additional classes or series of our capital stock that are senior to the Series A Preferred Stock. Other than the limited circumstances and except to the extent required by law, holders of Series A Preferred Stock do not have any voting rights.

**The Series A Preferred Stock is not convertible, and investors will not realize a corresponding upside if the price of the common stock increases.**

The Series A Preferred Stock is not convertible into the common stock and earns dividends at a fixed rate. Accordingly, an increase in market price of our common stock will not necessarily result in an increase in the market price of our Series A Preferred Stock. The market value of the Series A Preferred Stock may depend more on dividend and interest rates for other preferred stock, commercial paper and other investment alternatives and our actual and perceived ability to pay dividends on, and in the event of dissolution satisfy the liquidation preference with respect to, the Series A Preferred Stock.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

Our corporate headquarters are located at 7 Clyde Road, Somerset, New Jersey 08873 where we occupy approximately 2,400 square feet of space under a month-to-month lease. Additionally, at December 31, 2019 we lease approximately 49,000 square feet of office space in approximately 12 locations throughout the U.S., with lease terms that are typically two years or less. We also lease approximately 37,000 square feet for five pediatric offices in the Midwest, with leases that will expire between December 2020 and July 2023. Effective January 1, 2020, the Company vacated one of its current premises and began leasing an additional 9,000 square feet of office space with a lease term of approximately five years.

We also lease approximately 48,000 square feet of office space and computer server facilities in Islamabad, Pakistan, which lease expires in July 2021, as well as approximately 33,000 square feet in Bagh, Pakistan, with an annually renewable lease. The Company also leases office space in Sri Lanka, which lease expires in March of 2020. This lease will be renewed for an additional year at expiration.

The Company also leases computer co-location facilities and apartment space in several additional U.S. cities under short-term and long-term leases, however, these leases are not significant. We believe our current facilities are adequate for our current needs and that suitable additional space will be available as and when needed.

**Item 3. Legal Proceedings**

On April 4, 2017, Randolph Pain Relief and Wellness Center ("RPRWC") filed an arbitration demand with the American Arbitration Association (the "Arbitration") seeking to arbitrate claims against MTBC, Inc. ("MTBC") and MTBC Acquisition Corp. ("MAC"). The claims relate solely to services provided by Millennium Practice Management Associates, Inc. ("MPMA"), a subsidiary of MediGain, LLC, pursuant to a billing services agreement that contains an arbitration provision. MTBC and MAC jointly moved in the Superior Court of New Jersey, Chancery Division, Somerset County (the "Chancery Court") to enjoin the Arbitration on the grounds that neither were a party to the billing services agreement. On May 30, 2018, the Chancery Court denied that motion and MTBC and MAC appealed. The Chancery Court ordered the Arbitration stayed pending the appeal.

On April 23, 2019, the Appellate Division reversed the Chancery Court's ruling that MTBC is required to participate in the Arbitration and remanded the case for further proceedings before the Chancery Court on that issue. The Appellate Division upheld the Chancery Court's ruling that MAC was required to participate in the Arbitration. The parties have completed discovery in the remanded matter, and both MTBC and RPRWC filed cross-motions for summary judgement in their favor. On February 6, 2020, the Chancery Court denied RPRWC's motion for summary judgment and granted MTBC's cross-motion for summary judgment. The Chancery Court held that MTBC cannot be compelled to participate in the Arbitration. RPRWC has informed MTBC that it does not intend to appeal the Chancery Court's ruling and that it intends to move forward solely against MAC in the Arbitration.

RPRWC seeks compensatory damages of \$6.6 million, plus costs, for MPMA's alleged breach of the billing services agreement. RPRWC's breach of contract and compensatory damages claims have not been the subject of the ongoing court proceedings, which have focused solely on whether RPRWC can compel MTBC and MAC to arbitrate its claim. Thus, RPRWC has not yet provided MAC with information sufficient to enable it to estimate a range of possible losses that may arise from the Arbitration. MAC intends to vigorously defend against RPRWC's claims. If RPRWC is successful in the Arbitration, MAC anticipates the award would be substantially less than the amount claimed.

**Item 4. Mine Safety Disclosures**

None.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock has been listed since July 23, 2014 and is trading on the Nasdaq Global Market under the symbol "MTBC".

#### Common Stockholders

As of February 12, 2020, there were approximately 3,400 holders of record of our common stock.

#### Dividends on Common Stock

We have not declared a cash dividend on our common stock since we became public on July 23, 2014, and currently we do not anticipate paying any cash dividends to holders of our common stock. The Company is prohibited from paying any dividends on common stock without the prior written consent of its senior lender, SVB.

#### Recent Sales of Unregistered Securities

There was no sale of unregistered equity securities during the three months ended December 31, 2019.

#### Purchases of Equity Securities by the Issuer and Affiliated Purchasers

There was no share repurchase activity during the three months ended December 31, 2019.

#### Securities Authorized for Issuance under the Equity Compensation Plan

As of December 31, 2019, the following table shows the number of securities to be issued upon vesting under the equity compensation plan approved by the Company's Board of Directors.

#### Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon vesting	Number of securities remaining available for future issuance under equity incentive plan (excluding securities to be issued upon vesting)
Equity compensation plan approved by security holders - common shares	451,084	401,738
Equity compensation plan approved by security holders - preferred shares	44,000	133,654
Total	495,084	535,392

## **Item 6. Selected Financial Data**

The selected consolidated statements of operations data presented below for the years ended December 31, 2019 and 2018, as well as the consolidated balance sheet data as of December 31, 2019 and 2018, are derived from our audited consolidated financial statements included in this Annual Report on Form 10-K. The selected consolidated statements of operations data presented below for the years ended December 31, 2017, 2016 and 2015, as well as the consolidated balance sheet data as of December 31, 2017, 2016 and 2015 are derived from our consolidated financial statements not included in this Annual Report on Form 10-K. Historical results are not necessarily indicative of the results that may be expected in the future.

You should read the following selected consolidated financial data in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements appearing on page F-1 in this Annual Report on Form 10-K. Acquisitions by the Company in the last three years account for a significant portion of the increases in revenue and expenses in those years. Note 3 of our Consolidated Financial Statements discusses the acquisitions in the last two years.

**Consolidated Statements of Operations Data**

	<b>Years ended December 31,</b>				
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
(\$ in thousands, except per share data)					
Net revenue	\$ 64,439	\$ 50,546	\$ 31,811	\$ 24,493	\$ 23,080
Operating expenses:					
Direct operating costs	41,186	31,253	17,679	13,417	11,630
Selling and marketing	1,522	1,612	1,106	1,224	467
General and administrative	17,912	16,264	11,738	12,459	11,969
Research and development	871	1,029	1,082	902	659
Change in contingent consideration	(344)	73	152	(716)	(1,786)
Depreciation and amortization	3,006	2,854	4,300	5,108	4,599
Restructuring and impairment charges	219	-	276	-	-
Total operating expenses	64,372	53,085	36,333	32,394	27,538
Operating income (loss)	67	(2,539)	(4,522)	(7,901)	(4,458)
Interest expense - net	121	250	1,307	646	262
Other (expense) income - net	(625)	494	332	(53)	170
Loss before provision (benefit) for income taxes	(679)	(2,295)	(5,497)	(8,600)	(4,550)
Income tax provision (benefit)	193	(157)	68	197	138
Net loss	\$ (872)	\$ (2,138)	\$ (5,565)	\$ (8,797)	\$ (4,688)
Preferred stock dividend	6,386	4,824	2,030	753	207
Net loss attributable to common shareholders	\$ (7,258)	\$ (6,962)	\$ (7,595)	\$ (9,550)	\$ (4,895)
Weighted average common shares outstanding basic and diluted	12,087,947	11,721,232	11,010,432	10,036,988	9,732,806
Net loss per common share basic and diluted	\$ (0.60)	\$ (0.59)	\$ (0.69)	\$ (0.95)	\$ (0.50)

**Consolidated Balance Sheet Data**

	<b>As of December 31,</b>				
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
(\$ in thousands)					
Cash	\$ 19,994	\$ 14,472	\$ 4,362	\$ 3,477	\$ 8,040
Working capital - net (1)	19,824	17,916	4,608	(7,418)	5,128
Total assets	56,403	47,623	25,526	28,324	26,677
Long-term debt	83	222	121	4,200	4,903
Shareholders' equity	42,838	38,870	20,250	7,067	14,892

(1) Working capital-net is defined as current assets less current liabilities.

**Other Financial Data**

	<b>Years ended December 31,</b>				
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
(\$ in thousands)					
Adjusted EBITDA	\$ 8,101	\$ 4,802	\$ 2,291	\$ (605)	\$ (675)

To provide investors with additional insight and allow for a more comprehensive understanding of the information used by management in its financial and operational decision-making, we supplement our consolidated financial statements presented on a basis consistent with U.S. generally accepted accounting principles, or GAAP, with adjusted EBITDA, a non-GAAP financial measure of earnings. Adjusted EBITDA represents net income (loss) before income tax expense, interest income, interest expense, depreciation, amortization, transaction, integration, restructuring and impairment charges and change in contingent consideration. Our management uses adjusted EBITDA as a financial measure to evaluate the profitability and efficiency of our business model. We use this non-GAAP financial measure to assess the strength of the underlying operations of our business. These adjustments, and the non-GAAP financial measure that is derived from them, provide supplemental information to analyze our operations between periods and over time. Investors should consider our non-GAAP financial measure in addition to, and not as a substitute for, financial measures prepared in accordance with GAAP.

The following table contains a reconciliation of net loss to adjusted EBITDA.

**Reconciliation of net loss  
to adjusted EBITDA**

	<b>Years ended December 31,</b>				
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
(\$ in thousands)					
Net loss	\$ (872)	\$ (2,138)	\$ (5,565)	\$ (8,797)	\$ (4,688)
Depreciation	909	689	634	527	420
Amortization	2,097	2,165	3,666	4,581	4,179
Foreign exchange loss (gain) / other expense	827	(435)	(249)	53	(170)
Interest expense - net	121	250	1,307	646	262
Income tax provision (benefit)	193	(157)	68	197	138
Stock-based compensation expense	3,215	2,464	1,487	1,928	629
Transaction and integration costs	1,736	1,891	515	976	341
Restructuring and impairment charges	219	-	276	-	-
Change in contingent consideration	(344)	73	152	(716)	(1,786)
<b>Adjusted EBITDA</b>	<b>\$ 8,101</b>	<b>\$ 4,802</b>	<b>\$ 2,291</b>	<b>\$ (605)</b>	<b>\$ (675)</b>

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following is a discussion of our consolidated financial condition and results of operations for the years ended December 31, 2019 and 2018 and other factors that are expected to affect our prospective financial condition. The following discussion and analysis should be read together with our Consolidated Financial Statements and related notes beginning on page F-1 of this Annual Report on Form 10-K.

Some of the statements set forth in this section are forward-looking statements relating to our future results of operations. Our actual results may vary from the results anticipated by these statements. Please see "*Forward-Looking Statements*" on page 2 of this Annual Report on Form 10-K.

### **Overview**

The Company is a healthcare information technology company that provides a suite of proprietary web-based solutions and business services to healthcare providers. Our integrated Software-as-a-Service ("SaaS") platform and business services are designed to help our clients increase revenues, streamline workflows and make better business and clinical decisions, while reducing administrative burdens and operating costs. These solutions and services include:

#### **Healthcare IT:**

- Revenue cycle management ("RCM") services;
  - Proprietary, healthcare IT solutions, which is part of our RCM services, including:
    - Electronic health records,
    - Practice management software and related tools,
    - Mobile Health ("mHealth") solutions,
    - Healthcare claims clearinghouse, and
    - Business intelligence, customized applications, interfaces and a variety of other technology solutions that support our healthcare clients.
- Group purchasing services.

#### **Practice Management:**

- Comprehensive practice management services; and
- Telemedicine services.

Our offshore operations in Pakistan and Sri Lanka together accounted for approximately 14% and 22% of total expenses for the years ended December 31, 2019 and 2018, respectively. A significant portion of those expenses were personnel-related costs (approximately 78% and 79% of foreign costs for the years ended December 31, 2019 and 2018, respectively). Because personnel-related costs are significantly lower in Pakistan and Sri Lanka than in the U.S. and many other offshore locations, we believe our offshore operations give us a competitive advantage over many industry participants. All of the medical billing companies that we have acquired used domestic labor or subcontractors from higher cost locations to provide all or a substantial portion of their services. We are able to achieve significant cost reductions as we shift these labor costs to our offshore operations.

### **Key Performance Measures**

We consider numerous factors in assessing our performance. Key performance measures used by management include adjusted EBITDA, adjusted operating income, adjusted operating margin, adjusted net income and adjusted net income per share. These key performance measures are non-GAAP financial measures, which we believe better enable management and investors to analyze and compare the underlying business results from period to period.

These non-GAAP financial measures should not be considered in isolation, or as a substitute for or superior to, financial measures calculated in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Moreover, these non-GAAP financial measures have limitations in that they do not reflect all the items associated with the operations of our business as determined in accordance with GAAP. We compensate for these limitations by analyzing current and future results on a GAAP basis, as well as a non-GAAP basis, and we provide reconciliations from the most directly comparable GAAP financial measures to the non-GAAP financial measures. Our non-GAAP financial measures may not be comparable to similarly titled measures of other companies. Other companies, including companies in our industry, may calculate similarly titled non-GAAP financial measures differently than we do, limiting the usefulness of those measures for comparative purposes.

Adjusted EBITDA, adjusted operating income, adjusted operating margin, adjusted net income and adjusted net income per share provide an alternative view of performance used by management and we believe that an investor's understanding of our performance is enhanced by disclosing these adjusted performance measures.

Adjusted EBITDA excludes the following elements which are included in GAAP net income (loss):

- Income tax provision (benefit) or the cash requirements to pay our taxes;
- Interest expense, or the cash requirements necessary to service interest on principal payments on our debt;
- Foreign exchange (gains) and losses and other non-operating expenses;
- Stock-based compensation expense and cash-settled awards, based on changes in the stock price;
- Depreciation and amortization charges;
- Integration costs, such as severance amounts paid to employees from acquired businesses and transaction costs, such as brokerage fees, pre-acquisition accounting costs and legal fees, exit costs related to contractual agreements;
- Restructuring and impairment charges; and
- Changes in contingent consideration.

Set forth below is a presentation of our adjusted EBITDA for the years ended December 31, 2019 and 2018:

	December 31,	
	2019	2018
	(\$ in thousands)	
Net revenue	\$ 64,439	\$ 50,546
GAAP net loss	(872)	(2,138)
Provision (benefit) for income taxes	193	(157)
Net interest expense	121	250
Foreign exchange loss (gain) / other expense	827	(435)
Stock-based compensation expense	3,215	2,464
Depreciation and amortization	3,006	2,854
Transaction and integration costs	1,736	1,891
Restructuring and impairment charges	219	-
Change in contingent consideration	(344)	73
Adjusted EBITDA	<b>\$ 8,101</b>	<b>\$ 4,802</b>

Adjusted operating income and adjusted operating margin exclude the following elements which are included in GAAP operating income (loss):

- Stock-based compensation expense and cash-settled awards, based on changes in the stock price;
- Amortization of purchased intangible assets;
- Integration costs, such as severance amounts paid to employees from acquired businesses and transaction costs, such as brokerage fees, pre-acquisition accounting costs and legal fees, exit costs related to contractual agreements;
- Restructuring and impairment charges; and
- Changes in contingent consideration.

Set forth below is a presentation of our adjusted operating income and adjusted operating margin, which represents adjusted operating income as a percentage of net revenue, for the years ended December 31, 2019 and 2018:

	December 31,	
	2019	2018
	(\$ in thousands)	
Net revenue	\$ 64,439	\$ 50,546
GAAP net loss	(872)	(2,138)
Provision (benefit) for income taxes	193	(157)
Net interest expense	121	250
Other expense (income) - net	626	(494)
GAAP operating income (loss)	68	(2,539)
GAAP operating margin	0.1%	(5.0)%
Stock-based compensation expense	3,215	2,464
Amortization of purchased intangible assets	1,877	1,828
Transaction and integration costs	1,736	1,891
Restructuring and impairment charges	219	-
Change in contingent consideration	(344)	73
Non-GAAP adjusted operating income	\$ 6,771	\$ 3,717
Non-GAAP adjusted operating margin	10.5%	7.4%

Adjusted net income and adjusted net income per share exclude the following elements which are included in GAAP net income (loss):

- Foreign exchange (gains) and losses and other non-operating expenses;
- Stock-based compensation expense and cash-settled awards, based on changes in the stock price;
- Amortization of purchased intangible assets;
- Integration costs, such as severance amounts paid to employees from acquired businesses and transaction costs, such as brokerage fees, pre-acquisition accounting costs and legal fees, exit costs related to contractual agreements;
- Restructuring and impairment charges;
- Changes in contingent consideration; and
- Income tax expense (benefit) resulting from the amortization of goodwill related to our acquisitions.

No tax effect has been provided in computing non-GAAP adjusted net income and non-GAAP adjusted net income per share as the Company has sufficient carry forward losses to offset the applicable income taxes. The following table shows our reconciliation of GAAP net loss to non-GAAP adjusted net income for the years ended December 31, 2019 and 2018:

	December 31,	
	2019	2018
(\$ in thousands except for per share amounts)		
GAAP net loss	\$ (872)	\$ (2,138)
Foreign exchange loss (gain) / other expense	827	(435)
Stock-based compensation expense	3,215	2,464
Amortization of purchased intangible assets	1,877	1,828
Transaction and integration costs	1,736	1,891
Restructuring and impairment charges	219	-
Change in contingent consideration	(344)	73
Income tax expense (benefit) related to goodwill	80	(208)
Non-GAAP adjusted net income	\$ <b>6,738</b>	\$ <b>3,475</b>
	December 31,	
	2019	2018
GAAP net loss attributable to common shareholders, per share	\$ (0.60)	\$ (0.59)
Impact of preferred stock dividend	0.53	0.41
Net loss per end-of-period share	(0.07)	(0.18)
Foreign exchange loss (gain) / other expense	0.07	(0.04)
Stock-based compensation expense	0.26	0.21
Amortization of purchased intangible assets	0.15	0.15
Transaction and integration costs	0.14	0.16
Restructuring and impairment charges	0.02	-
Change in contingent consideration	(0.03)	0.01
Income tax expense (benefit) related to goodwill	0.01	(0.02)
Non-GAAP adjusted net income per share	\$ <b>0.55</b>	\$ <b>0.29</b>
End-of-period shares	12,237,686	11,829,758

For purposes of determining non-GAAP adjusted net income per share, the Company used the number of common shares outstanding at the end of the years December 31, 2019 and 2018. Non-GAAP adjusted net income per share does not take into account dividends paid on Preferred Stock. No tax effect has been provided in computing non-GAAP adjusted net income and non-GAAP adjusted net income per common share as the Company has sufficient carry forward net operating losses to offset the applicable income taxes.

## Quarterly Results of Operations

	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
(\$ in thousands, except per share data)								
Net revenue	\$ 15,758	\$ 16,851	\$ 16,750	\$ 15,080	\$ 16,511	\$ 17,045	\$ 8,683	\$ 8,307
Operating expenses:								
Direct operating costs	9,406	10,536	11,396	9,848	10,311	12,124	4,334	4,484
Selling and marketing	430	348	383	361	442	462	403	305
General and administrative	4,155	4,452	5,143	4,161	5,478	5,131	3,054	2,601
Research and development	221	176	219	255	261	264	249	255
Change in contingent consideration	-	(280)	-	(64)	5	25	11	32
Depreciation and amortization	598	814	836	757	881	822	560	591
Restructuring and impairment charges	83	136	-	-	-	-	-	-
Total operating expenses	<u>14,893</u>	<u>16,182</u>	<u>17,977</u>	<u>15,318</u>	<u>17,378</u>	<u>18,828</u>	<u>8,611</u>	<u>8,268</u>
Operating income (loss)	865	669	(1,227)	(238)	(867)	(1,783)	72	39
Interest expense - net	39	32	33	17	57	80	44	69
Other (expense) income - net	<u>(402)</u>	<u>(688)</u>	<u>545</u>	<u>(81)</u>	<u>343</u>	<u>(219)</u>	<u>218</u>	<u>152</u>
Income (loss) before provision for income taxes	424	(51)	(715)	(336)	(581)	(2,082)	246	122
Income tax provision (benefit)	91	87	56	(41)	(5)	(250)	51	47
Net income (loss)	<u>\$ 333</u>	<u>\$ (138)</u>	<u>\$ (771)</u>	<u>\$ (296)</u>	<u>\$ (576)</u>	<u>\$ (1,832)</u>	<u>\$ 195</u>	<u>\$ 75</u>
Preferred stock dividend	1,804	1,603	1,486	1,493	1,744	1,056	1,249	775
Net loss attributable to common shareholders	<u>\$ (1,471)</u>	<u>\$ (1,741)</u>	<u>\$ (2,257)</u>	<u>\$ (1,788)</u>	<u>\$ (2,320)</u>	<u>\$ (2,888)</u>	<u>\$ (1,054)</u>	<u>\$ (700)</u>
Loss per common share Basic and diluted	<u>\$ (0.12)</u>	<u>\$ (0.14)</u>	<u>\$ (0.19)</u>	<u>\$ (0.15)</u>	<u>\$ (0.20)</u>	<u>\$ (0.25)</u>	<u>\$ (0.09)</u>	<u>\$ (0.06)</u>
Adjusted EBITDA	<u>\$ 2,786</u>	<u>\$ 2,594</u>	<u>\$ 1,141</u>	<u>\$ 1,580</u>	<u>\$ 1,406</u>	<u>\$ 865</u>	<u>\$ 1,557</u>	<u>\$ 974</u>

## Reconciliation of net income (loss) to adjusted EBITDA

	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
	(\$ in thousands)							
Net income (loss)	\$ 333	\$ (138)	\$ (771)	\$ (296)	\$ (576)	\$ (1,832)	\$ 195	\$ 75
Depreciation	241	238	224	207	203	189	145	151
Amortization	358	576	612	550	678	633	415	440
Foreign exchange loss (gain) / other expense	418	704	(539)	244	(330)	227	(185)	(147)
Interest expense - net	39	32	33	17	57	80	44	69
Income tax provision (benefit)	91	87	56	(41)	(5)	(250)	51	47
Stock-based compensation expense	890	775	792	758	940	987	409	128
Transaction and integration costs	333	464	734	205	434	806	472	179
Restructuring and impairment charges	83	136	-	-	-	-	-	-
Change in contingent consideration	-	(280)	-	(64)	5	25	11	32
Adjusted EBITDA	<u>\$ 2,786</u>	<u>\$ 2,594</u>	<u>\$ 1,141</u>	<u>\$ 1,580</u>	<u>\$ 1,406</u>	<u>\$ 865</u>	<u>\$ 1,557</u>	<u>\$ 974</u>

## Key Metrics

In addition to the line items in our consolidated financial statements, we regularly review the following key metrics to evaluate our business, measure our performance, identify trends in our business, prepare financial projections, make strategic business decisions, and assess market share trends and working capital needs. We believe information on these metrics is useful for investors to understand the underlying trends in our business.

**Providers and Practices Served:** As of December 31, 2019, we provided services to approximately 10,500 providers (which we define as physicians, nurses, nurse practitioners, physician assistants and other clinical staff that render bills for their services), representing approximately 1,800 practices. In addition, we served approximately 200 clients who were not medical practices, but are service organizations who serve the healthcare community. As of December 31, 2018, we served approximately 10,000 providers representing approximately 1,800 practices.

**Customer Renewal Rate:** Our customer renewal rate measures the percentage of our RCM clients who utilize our technology platform who were a party to a services agreement with us on January 1 of a particular year and continued to operate and be a client on December 31 of the same year. It also includes acquired accounts, if they are a party to a services agreement with the company we acquired and are generating revenue for us, so long as the risk of client loss under the respective purchase agreement has fully shifted to us by January 1 of the particular year. Our renewal rates for 2019 and 2018 were 90% and 89%, respectively.

## Sources of Revenue

**Revenue:** We primarily derive our revenues from bundled revenue cycle management services, typically billed as a percentage of payments collected by our customers. This fee includes RCM, as well as the ability to use our EHR and practice management software as part of the bundled fee. These payments accounted for approximately 67% and 76% of our revenues during the years ended December 31, 2019 and 2018, respectively. This includes customers utilizing our proprietary product suite, PracticePro®, as well as customers from acquisitions which we are servicing utilizing third-party software. Key drivers of our revenue include growth in the number of providers we are servicing, the number of patients served by those providers, and collections by those providers. We also generate revenue from our practice management and group purchasing services which began in July 2018 as a result of the Orion acquisition. Revenue is also generated from transcription, coding, indexing and other ancillary services. By the end of 2019 and 2018, we moved approximately 52% and 57%, respectively, of the medical billing customers from prior years' acquisitions that were on other platforms to our operating platform.

We earned approximately 8% and 7% of our revenue from printing and mailing operations, clearinghouse, EDI services and ancillary RCM services during the years ended December 31, 2019 and 2018, respectively. We earned approximately 2% of our revenue from group purchasing services during the same period.

We also earned approximately 21% and 13% of our revenue from practice management services, including reimbursement of certain costs plus a percentage of the operating profit, during the years ended December 31, 2019 and 2018, respectively. We began providing practice management services and group purchasing services on July 1, 2018. In December 2019, we began the launch of the telemedicine service.

## **Operating Expenses**

*Direct Operating Costs.* Direct operating costs consist primarily of salaries and benefits related to personnel who provide services to our customers and the patients of the three managed medical practices, claims processing costs, and other direct costs related to our services. Costs associated with the implementation of new customers are expensed as incurred. The reported amounts of direct operating costs do not include depreciation and amortization, which are broken out separately in the consolidated statements of operations. Our Pakistan and Sri Lanka operations together accounted for approximately 13% and 22% of direct operating costs for the years ended December 31, 2019 and 2018, respectively. As we grow, we expect to achieve further economies of scale and to see our direct operating costs decrease as a percentage of revenue.

*Selling and Marketing Expense.* Selling and marketing expense consists primarily of compensation and benefits, commissions, travel and advertising expenses.

*Research and Development Expense.* Research and development expense consists primarily of personnel-related costs and third-party contractor costs. Because we incorporate our technology into our services as soon as technological feasibility is established, most costs are currently expensed as incurred.

*General and Administrative Expense.* General and administrative expense consists primarily of personnel-related expense for administrative employees, including compensation, benefits, travel, occupancy and insurance, software license fees and outside professional fees. Our Pakistan and Sri Lanka offices accounted for approximately 16% and 20% of general and administrative expenses for the years ended December 31, 2019 and 2018, respectively.

*Contingent Consideration.* Contingent consideration represents the portion of consideration payable to the sellers of some of our acquisitions, the amount of which is based on the achievement of defined performance measures contained in the purchase agreements. The balance at December 31, 2018 was payable in cash and the remaining balance was settled during 2019. Contingent consideration is adjusted to fair value at the end of each reporting period.

*Depreciation and Amortization Expense.* Depreciation expense is charged using the straight-line method over the estimated lives of the assets ranging from three to five years. Amortization expense is charged on either an accelerated or on a straight-line basis over a period of three or four years for most intangible assets acquired in connection with acquisitions including those intangibles related to the group purchasing services. Amortization expense related to the value of our practice management clients is amortized on a straight-line basis over a period of twelve years.

*Interest and Other Income (Expense).* Interest expense consists of interest costs and loan origination costs related to our working capital line of credit and amounts due in connection with acquisitions, offset by interest income. Our other income (expense) results primarily from foreign currency transaction gains (losses), and amounted to a foreign exchange loss of \$827,000 and a gain \$435,000 for the years ended December 31, 2019 and 2018, respectively.

*Income Tax.* In preparing our consolidated financial statements, we estimate income taxes in each of the jurisdictions in which we operate. This process involves estimating actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and financial reporting purposes. These differences result in deferred income tax assets and liabilities. Although the Company is forecasting a return to profitability, it incurred losses historically and there is uncertainty regarding future US taxable income, which make realization of a deferred tax asset difficult to support in accordance with ASC 740. Accordingly, a valuation allowance has been recorded against all deferred tax assets as of December 31, 2019 and December 31, 2018. Effective January 1, 2018, there is a global intangible low-taxed income ("GILTI") tax. Companies can either account for the GILTI inclusion in the period in which they are incurred or establish deferred tax liabilities for the expected future taxes associated with GILTI. The Company elected to record the GILTI provisions as they are incurred each period.

## Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with GAAP. The preparation of these financial statements requires us to make estimates and assumptions about future events, and apply judgments that affect the reported amounts of assets, liabilities, revenue, expense and related disclosures. We base our estimates, assumptions and judgments on historical experience, current trends and various other factors that we believe to be reasonable under the circumstances. The accounting estimates used in the preparation of our consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. On a regular basis, we review our accounting policies, estimates, assumptions and judgments to ensure that our financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material. The methods, estimates and judgments that we use in applying our accounting policies have a significant impact on our results of operations.

Critical accounting policies are those policies used in the preparation of our consolidated financial statements that require management to make difficult, subjective, or complex adjustments, and to make estimates about the effect of matters that are inherently uncertain. As a result of our adoption of the new revenue recognition standard on January 1, 2018, we re-assessed the estimates, assumptions, and judgments that are most critical in our recognition of revenue.

### Revenue from Contracts with Customers:

We account for revenue in accordance with ASC 606, *Revenue from Contracts with Customers*. Our revenue recognition policies require us to make significant judgments and estimates, particularly as it relates to revenue cycle management and group purchasing revenue. Under ASC 606, certain significant accounting estimates, such as payment-to-charge ratios, effective billing rates and the estimated contractual payment periods are required to measure the revenue cycle management revenue. To measure group purchasing services revenue, we need to estimate the number of providers purchasing vaccines and the amount and timing of those purchases. We analyze various factors including, but not limited to, contractual terms and conditions, the credit-worthiness of our customers and our pricing policies. Changes in judgment on any of the above factors could materially impact the timing and amount of revenue recognized in a given period.

Revenue is recognized as the performance obligations are satisfied. We derive revenue from seven primary sources: revenue cycle management services, practice management services, professional services, ancillary services, group purchasing services, printing and mailing services, and clearinghouse and EDI (electronic data interchange) services. All of our revenue arrangements are based on contracts with customers. Most of our contracts with customers contain a single performance obligation. For contracts where we provide multiple services such as where we perform multiple ancillary services, each service represents its own performance obligation. Selling or transaction prices are based on the contractual price for the service, which is consistent with the stand-alone selling price.

#### *Revenue cycle management services:*

Revenue cycle management services are the recurring process of submitting and following up on claims with health insurance companies in order for the healthcare providers to receive payment for the services they rendered. MTBC typically invoices customers on a monthly basis based on the actual collections received by its customers and the agreed-upon rate in the sales contract. The services include use of practice management software and related tools (on a software-as-a-service ("SaaS") basis), electronic health records (on a SaaS basis), medical billing services and use of mobile health solutions. We consider the services to be one performance obligation since the promises are not distinct in the context of the contract. The performance obligation consists of a series of distinct services that are substantially the same and have the same periodic pattern of transfer to our customers.

In many cases, our clients may terminate their agreements with 90 days' notice without cause, thereby limiting the term in which we have enforceable rights and obligations, although this time period can vary between clients. Our payment terms are normally net 30 days. Although our contracts typically have stated terms of one or more years, under ASC 606 our contracts are considered month-to-month and accordingly, there is no financing component.

For the majority of our revenue cycle management contracts, the total transaction price is variable because our obligation is to process an unknown quantity of claims, as and when requested by our customers over the contract period. When a contract includes variable consideration, we evaluate the estimate of the variable consideration to determine whether the estimate needs to be constrained; therefore, we include variable consideration in the transaction price only to the extent that it is probable that a significant reversal of the amount of cumulative revenue recognized will not occur when the uncertainty associated with variable consideration is subsequently resolved. Estimates to determine variable consideration such as payment to charge ratios, effective billing rates, and the estimated contractual payment periods are updated at each reporting date. Revenue is recognized over the performance period using the input method.

*Group purchasing services:*

We estimate the variable consideration which we expect to be entitled to for the group purchasing services based upon anticipated shipments to the medical providers enrolled in the program, seasonality and the changes in the number of providers. The estimate of variable consideration includes adjusting historical data for anticipated changes from prior periods. When reviewing our estimates, in order to ensure that our estimates do not pose a risk of significantly overstating our revenue in any reporting period, we will apply constraints, when appropriate, to certain estimates around our variable consideration. Variable consideration estimates are updated at each reporting period.

*Practice management services:*

We estimate the amount that will be collected on claims submitted to insurance carriers which is used to determine the compensation to be paid to the owners of the managed practices. These compensation amounts reduce the revenue that the Company recognizes since they are deducted from gross billings. The estimate of the amounts to be received from the insurance claims are updated at each reporting period.

Although we believe that our approach to estimates and judgments is reasonable, actual results could differ, and we may be exposed to increases or decreases in revenue that could be material. Our estimates of variable consideration may prove to be inaccurate, in which case we may have understated or overstated the revenue recognized in an accounting period. The amount of variable consideration recognized to date that remains subject to estimation is included within the contract asset on the consolidated balance sheet.

Contingent Consideration:

If a business combination provides for contingent consideration, the Company records the contingent consideration at fair value at the acquisition date. The Company adjusts the contingent consideration liability at the end of each reporting period based on fair value inputs representing changes in forecasted revenue of the acquired entities and the probability of an adjustment to the purchase price. Critical estimates include determining the forecasted revenue for certain acquisitions, probability and timing of cash collections and an appropriate discount rate. Changes in the fair value of the contingent consideration after the acquisition date are included in earnings if the contingent consideration is recorded as a liability.

Goodwill Impairment:

Goodwill is evaluated for impairment annually as of October 31<sup>st</sup>, referred to as the annual test date. The Company will also test for impairment between annual test dates if an event occurs or circumstances change that would indicate the carrying amount may be impaired. Impairment testing for goodwill is performed at the reporting-unit level. The Company has determined that its business consists of two operating segments and two reporting units (Healthcare IT and Practice Management). Application of the goodwill impairment test requires judgment including the use of a discounted cash flow and market approach methodology. These analyses require significant assumptions and judgments. These assumptions and judgments include estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, estimation of the useful life over which cash flows will occur, determination of our weighted average cost of capital and the selection of comparable companies and the interpretation of their data. Future business and economic conditions, as well as differences in actual financial results related to any of the assumptions, could materially impact the consolidated financial statements through impairment of goodwill or intangible assets and acceleration of the amortization period of the purchased intangible assets which are finite-lived assets. No impairment charges were recorded during the years ended December 31, 2019 or 2018.

### Business Combinations:

The Company accounts for business combinations under the provisions of ASC 805, *Business Combinations*, which requires that the acquisition method of accounting be used for all business combinations. Assets acquired and liabilities assumed are recorded at the date of acquisition at their respective fair values. The fair value amount assigned to intangible assets is based on an exit price from a market participant's viewpoint, and utilizes data such as discounted cash flow analysis and replacement cost models. Critical estimates in valuing certain intangible assets include, but are not limited to, historical and projected client retention rates, expected future cash inflows and outflows, discount rates, and estimated useful lives of those intangible assets. ASC 805 also specifies criteria that intangible assets acquired in a business combination must meet to be recognized and reported apart from goodwill. Goodwill represents the excess purchase price over the fair value of the tangible net assets and intangible assets acquired in a business combination. Acquisition-related expenses are recognized separately from the business combinations and are expensed as incurred.

### **Results of Operations**

The following table sets forth our consolidated results of operations as a percentage of total revenue for the years shown.

	December 31,	
	2019	2018
Net revenue	100.0%	100.0%
Operating expenses:		
Direct operating costs	63.9%	61.8%
Selling and marketing	2.4%	3.2%
General and administrative	27.8%	32.2%
Research and development	1.4%	2.0%
Change in contingent consideration	(0.5)%	0.1%
Depreciation and amortization	4.7%	5.6%
Restructuring and impairment charges	0.3%	0.0%
Total operating expenses	<u>100.0%</u>	<u>104.9%</u>
Operating profit (loss)	0.0%	(4.9)%
Interest expense - net	0.2%	0.5%
Other (expense) income - net	(1.0)%	1.0%
Loss before income taxes	(1.2)%	(4.4)%
Income tax provision (benefit)	0.3%	(0.3)%
Net loss	<u>(1.5)%</u>	<u>(4.1)%</u>

### **Comparison of 2019 and 2018**

	December 31,		Change	
	2019	2018	Amount	Percent
Net revenue	\$ 64,438,594	\$ 50,545,781	\$ 13,892,813	27%

**Net revenue.** Net revenue of \$64.4 million for the year ended December 31, 2019 increased by \$13.9 million or 27% from revenue of \$50.5 million for the year ended December 31, 2018. Total revenue for the year ended December 31, 2019 included \$5.1 million and \$29 million from the acquisitions of ETM and Orion, respectively offset by attrition from customers. Total revenue for the year ended December 31, 2018 included \$17.8 million as a result of the Orion acquisition in July 2018.

	December 31,		Change	
	2019	2018	Amount	Percent
Direct operating costs	\$ 41,186,024	\$ 31,252,535	\$ 9,933,489	32%
Selling and marketing	1,521,815	1,611,982	(90,167)	(6)%
General and administrative	17,911,797	16,264,473	1,647,324	10%
Research and development	870,780	1,029,510	(158,730)	(15)%
Change in contingent consideration	(343,768)	73,271	(417,039)	(569)%
Depreciation	909,157	688,020	221,137	32%
Amortization	2,096,449	2,165,807	(69,358)	(3)%
Resturcturing and impairment charges	219,013	-	219,013	100%
Total operating expenses	\$ 64,371,267	\$ 53,085,598	\$ 11,285,669	21%

*Direct Operating Costs.* Direct operating costs of \$41.2 million for the year ended December 31, 2019 increased by \$9.9 million or 32% from direct operating costs of \$31.3 million for the year ended December 31, 2018. Salary costs increased by \$4.8 million primarily as a result of the Orion and ETM acquisitions. Medical supplies increased by \$2.7 million as a result of the addition of the managed practices. Outsourcing and other customer processing costs increased by \$752,000, facility costs increased by \$968,000 and postage and delivery costs increased by \$299,000.

*Selling and Marketing Expense.* Selling and marketing expense of \$1.5 million for the year ended December 31, 2019 decreased by \$90,000 or 6% from selling and marketing expense of \$1.6 million for the year ended December 31, 2018.

*General and Administrative Expense.* General and administrative expense of \$17.9 million for the year ended December 31, 2019 increased by \$1.6 million or 10% from general and administrative expense of \$16.3 million for the year ended December 31, 2018. Salary costs increased by \$1.4 million as a result of the Orion and ETM acquisitions and stock compensation expense.

*Research and Development Expense.* Research and development expense of \$871,000 for the year ended December 31, 2019 decreased by \$159,000 or 15% from research and development expense of \$1 million in the prior year.

*Contingent Consideration.* The changes in contingent consideration of \$(344,000) and \$73,000 for the years ended December 31, 2019 and 2018, respectively, relate to changes in the fair value of the contingent consideration. The losses in 2018 resulted primarily from increases in the revenue estimates for acquisitions made in 2015 and 2016. The gain in 2019 primarily represents a favorable settlement related to previous acquisitions.

*Depreciation.* Depreciation of \$909,000 for the year ended December 31, 2019 increased by \$221,000 or 32% from depreciation of \$688,000 for the year ended December 31, 2018, primarily as a result of additional property and equipment purchases and the property and equipment obtained from the Orion and ETM acquisitions.

*Amortization Expense.* Amortization expense of \$2.1 million for the year ended December 31, 2019, decreased by \$69,000 or 3% from amortization expense of \$2.2 million for the year ended December 31, 2018. This decrease is due to intangibles being amortized using the double declining method resulting in increased amortization expense in the initial years.

*Restructuring and Impairment Charges.* Restructuring charges represent the remaining lease costs for a facility no longer used by the Company as the employees were transferred to another Company facility. Impairment charges represent charges recorded for a leased facility no longer being used by the Company. The Company is marketing the facility for sublease and recorded the difference between the contractual rent obligation and the estimated sub lease payments as an impairment charge. There were no similar costs incurred in 2018.

	December 31,		Change	
	2019	2018	Amount	Percent
Interest income	\$ 262,001	\$ 100,788	\$ 161,213	160%
Interest expense	(382,673)	(351,168)	(31,505)	9%
Other (expense) income - net	(625,675)	494,332	(1,120,007)	(227)%
Income tax provision (benefit)	192,780	(157,385)	350,165	(222)%

*Interest Income.* Interest income of \$262,000 for the year ended December 31, 2019 increased by \$161,000 or 160% from interest income of \$101,000 for the year ended December 31, 2018. Interest income primarily represents interest earned on temporary cash investments and late fees from customers.

*Interest Expense.* Interest expense of \$383,000 for the year ended December 31, 2019 increased by \$32,000 or 9% from interest expense of \$351,000 for the year ended December 31, 2018 primarily as a result of the adoption of ASC 842. Interest expense also includes the amortization of deferred financing costs which was approximately \$192,000 during both the years ended December 31, 2019 and 2018.

*Other Income (expense) - net.* Other expense - net was \$626,000 for the year ended December 31, 2019 compared to other income - net of \$494,000 for the year ended December 31, 2018. Included in other income (expense) - net are foreign currency transaction gains (losses) primarily resulting from transactions in foreign currencies other than the functional currency. These transaction gains and losses are recorded in the consolidated statements of operations related to the recurring measurement and settlement of such transactions.

*Income Tax Provision (Benefit).* There was a \$193,000 provision for income taxes for the year ended December 31, 2019, compared to the benefit for income taxes of \$157,000 for the year ended December 31, 2018. Included in the tax provision for the year ended December 31, 2019 is an \$80,000 deferred income tax provision.

The current income tax provision for the year ended December 31, 2019 and 2018 was approximately \$113,000 and \$50,000, respectively and primarily relates to state minimum taxes and foreign income taxes. The pre-tax loss was \$679,000 and \$2.3 million for the years ended December 31, 2019 and 2018, respectively. The Company has incurred losses historically and there is uncertainty regarding future US taxable income, which make realization of a deferred tax asset difficult to support in accordance with ASC 740. Accordingly, a valuation allowance was recorded against all deferred tax assets at December 31, 2019 and 2018.

The Company has recorded goodwill as a result of its acquisitions. Goodwill is not amortized for financial reporting purposes. However, goodwill is tax deductible and amortized over 15 years for tax purposes. As such, deferred income tax expense and a deferred tax liability arise as a result of the tax-deductibility of this indefinitely lived asset. The resulting deferred tax liability, which is expected to continue to be recorded over the amortization period, will have an indefinite life. As a result of the Company incurring tax losses for 2019 and 2018 which have an indefinite life under the recent tax reform legislation, the federal deferred tax liability resulting from the amortization of goodwill was offset against these indefinite federal operating net loss deferred tax assets to the extent allowable. The remaining deferred tax liability could remain on the Company's consolidated balance sheet indefinitely unless there is an impairment of goodwill (for financial reporting purposes) or a portion of the related business is sold.

The Company will maintain a full valuation allowance on deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of these allowances. While the Company's plan is to be profitable in the future and begin utilizing these deferred tax assets, the Company currently lacks sufficient evidence to allow it to release the valuation allowance in 2019 and 2018. Release of the valuation allowance would result in the recognition of certain deferred tax assets and an income tax benefit in the period of release.

The Company has a federal NOL carry forward of approximately \$19.8 million of which approximately \$15.8 million will expire between 2034 and 2037 and the balance has an indefinite life. The Company has state NOL carry forwards of approximately \$38.5 million, of which \$17.9 million relates to the State of New Jersey. These NOLs expire between 2034 to 2039.

## Liquidity and Capital Resources

During the year ended December 31, 2019, there was positive cash flow from operations of approximately \$7.6 million and at year-end the Company had \$19.8 million in cash, positive working capital of \$19.8 million and no bank debt. During the three months ended December 31, 2019, cash provided by operations was \$2.9 million. The Company has a revolving line of credit with SVB, and, as of December 31, 2019, there was no balance outstanding. During 2018, the Company sold 1,020,000 shares of Preferred Stock and raised net proceeds of approximately \$22.8 million. During the year ended December 31, 2019, the Company sold 373,000 shares of Preferred Stock and raised \$9.6 million in net proceeds after fees and expenses.

The following table summarizes our cash flows for the years presented.

	December 31,	
	2019	2018
Net cash provided by operating activities	\$ 7,617,987	\$ 6,812,474
Net cash used in investing activities	(4,158,159)	(13,628,249)
Net cash provided by financing activities	1,422,201	17,656,537
Effect of exchange rate changes on cash	639,622	(730,511)
Net increase in cash	\$ 5,521,651	\$ 10,110,251

The loss before income taxes was \$679,000 for the year ended December 31, 2019, of which \$3.0 million was non-cash depreciation and amortization. The loss before income tax for the year ended December 31, 2018 was \$2.3 million, of which \$2.9 million was non-cash depreciation and amortization.

Management continues to focus on the Company's overall profitability, including growing revenue and managing expenses, and expects that these efforts will continue to enhance our liquidity and financial position. Based on management's forecasts, the Company will have sufficient liquidity to meet its obligations as they become due for the next twelve months from the date of financial statements issuance.

We have not been adversely affected by inflation as typically we receive a percentage of the fees our clients collect from our revenue cycle management services. Additionally, our practice management contracts are based on our costs plus a percentage of operating income. We continue to monitor the impact of inflation in order to minimize its effects through pricing strategies, productivity improvements and cost reductions. In the event of inflation, we believe that we will be able to pass on any price increases for fixed rate contracts to our customers, as the prices that we charge are not governed by long-term contracts.

### **Operating Activities**

Cash provided by operating activities was \$7.6 million and \$6.8 million during the years ended December 31, 2019 and 2018, respectively. The decrease in the net loss of \$1.3 million included the following changes in non-cash items:

Increase in depreciation and amortization of \$157,000, increase in stock-based compensation of \$752,000, and an increase in interest accretion of \$307,000 . Revenue increased by \$13.9 million for the year ended December 31, 2019 compared to the year ended December 31, 2018, and expenses increased by \$11.3 million for the same period primarily due to the acquisition of ETM in second quarter of 2019 and Orion in the third quarter of 2018.

Cash generated by the reduction of accounts receivable was \$765,000 for the year ended December 31, 2019, compared with a reduction of \$1.5 million for the year ended December 31, 2018. This excludes the acquired accounts receivable as part of the ETM and Orion acquisitions. Accounts payable, accrued compensation and accrued expenses increased by \$1.4 million during the year ended December 31, 2019, compared with a decrease of \$2.1 million for the year ended December 31, 2018.

### **Investing Activities**

Cash used in investing activities during the year ended December 31, 2019 was \$4.2 million, a decrease of \$9.5 million compared to \$13.6 million during the year ended December 31, 2018. The change is due to the Company acquiring Orion for a cash consideration of \$12.6 million during 2018, while in 2019 the Company paid \$1.6 million for the acquisition of ETM.

### **Financing Activities**

Cash provided by financing activities during the year ended December 31, 2019 was \$1.4 million, compared to \$17.7 million in the year ended December 31, 2018. There was also \$1.4 million of payments to settle the tax withholding obligations. Cash provided by financing activities during 2019 includes \$9.6 million of net proceeds after fees and expenses from issuing 373,030 shares of Preferred Stock, offset by \$430,000 of repayments for debt obligations, and \$6.1 million of Preferred Stock dividends. Cash provided by financing activities during 2018 includes \$22.8 million of net proceeds from issuing 1,020,000 shares of Preferred Stock, offset by \$464,000 of repayments for debt obligations, and \$4.1 million of Preferred Stock dividends. In 2018, there were \$333,000 of payments to settle tax withholding obligations. There were no borrowings under the revolving line of credit for the year ended December 31, 2019 and no net borrowings for the year ended December 31, 2018.

### **Contractual Obligations and Commitments**

We have contractual obligations under our line of credit. We also maintain operating leases for property and certain office equipment. We were in compliance with all SVB covenants in 2019, except for one instance where a waiver was obtained in conjunction with the acquisition of ETM.

The following table presents certain payments due by the Company under our long-term contractual obligations with minimum firm commitments as of December 31, 2019. In addition, based on the interest-bearing obligations as of December 31, 2019, we expect interest expense to be approximately \$11,000 during the years below. This excludes the amortization of bank financing costs which is recorded as interest expense.

	Year Ending December 31,				
	2020	2021	2022	2023	2024
Notes payable	\$ 283,675	\$ 63,410	\$ 15,171	\$ 4,694	\$ -
Leases	1,688,772	1,289,327	596,020	150,827	4,598
Total	\$ 1,972,447	\$ 1,352,737	\$ 611,191	\$ 155,521	\$ 4,598
					\$ 4,096,494

### **Off-Balance Sheet Arrangements**

As of December 31, 2019, and 2018, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special-purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Other than our operating leases for office space, computer equipment and other property, we do not engage in off-balance sheet financing arrangements.

### **Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

We are a smaller reporting company as defined by 17 C.F.R. 229.10(f)(1) and are not required to provide information under this item, pursuant to Item 305(e) of Regulation S-K.

### **Item 8. Financial Statements and Supplementary Data**

See "Index to Consolidated Financial Statements" which appears on page F-1 of this Annual Report on Form 10-K.

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

### **Item 9A. Controls and Procedures**

#### ***Evaluation of Disclosure Controls and Procedures***

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, based on the 2013 Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2019 as required by Rules 13a-15(b) and 15d-15(b) of the Exchange Act. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officer, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on the evaluation of our disclosure controls and procedures, as of December 31, 2019, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with U.S. generally accepted accounting principles.

#### ***Management's Report on Internal Control over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Management is required to base its assessment on the effectiveness of our internal control over financial reporting on a suitable, recognized control framework. Management has utilized the criteria established in COSO to evaluate the effectiveness of internal control over financial reporting.

Our management has performed its assessment according to the guidelines established by COSO. Based on the assessment, management has concluded that our system of internal control over financial reporting, as of December 31, 2019, is effective.

Because of its inherent limitations, our internal controls over financial reporting provide reasonable, not absolute, assurance that the financial statements and footnotes thereto are free of material error. In addition, no internal control structure can provide absolute assurance that all instances of fraud have been detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to the rules of the SEC that permit the Company to provide only management's report in this Annual Report on Form 10-K.

#### ***Changes in Internal Control over Financial Reporting***

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Item 9B. Other Information**

On February 28, 2020, the Company and its wholly owned subsidiaries MTBC Acquisition Corp., MTBC Health, Inc., MTBC Practice Management Corp., MTBC-Med, Inc., and CareCloud Corporation entered into a Joinder and Third Loan Modification Agreement (the "Joinder Agreement") with SVB, whereby CareCloud and MTBC-Med became parties to the Company's credit agreement with SVB.

The foregoing description of the Joinder Agreement does not purport to be complete and is qualified entirely by reference to the complete text of such document, a copy of which is attached as an exhibit to this Form 10-K and is incorporated herein by reference.

The above description has been included to provide investors and security holders with information regarding the terms thereof. Investors and security holders are not third-party beneficiaries under the credit agreement and should not rely on the representations, warranties and covenants or any descriptions thereof as characterizations of the actual state of facts or condition thereto or any of their respective subsidiaries or affiliates. Moreover, information concerning the subject matter of representations and warranties may change after the date of the loan agreement, which subsequent information may or may not be fully reflected in the Company's disclosures."

## **PART III**

### **Item 10. Directors, Executive Officers and Corporate Governance**

Information required by this item will be included in our definitive Proxy Statement for the 2020 Meeting of Shareholders which will be filed within 120 days of the end of our fiscal year ended December 31, 2019 ("2020 Proxy Statement") and is incorporated herein by reference.

### **Item 11. Executive Compensation**

Information required by this item will be included in the 2020 Proxy Statement and is incorporated herein by reference.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Information required by this item will be included in the 2020 Proxy Statement and is incorporated herein by reference.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

Information required by this item will be included in the 2020 Proxy Statement and is incorporated herein by reference.

### **Item 14. Principal Accounting Fees and Services**

Information required by this item will be included in our 2020 Proxy Statement and is incorporated herein by reference.

## PART IV

### Item 15. Exhibits, Financial Statement Schedules

**(a) The following documents are filed as part of this Annual Report on Form 10-K:**

(1) Financial Statements

- (i) Consolidated Balance Sheets as of December 31, 2019 and 2018
- (ii) Consolidated Statements of Operations for the years ended December 31, 2019 and 2018
- (iii) Consolidated Statements of Comprehensive Loss for the years ended December 31, 2019 and 2018
- (iv) Consolidated Statements of Shareholders' Equity for the years ended December 31, 2019 and 2018
- (v) Consolidated Statements of Cash Flows for the years ended December 31, 2019 and 2018
- (vi) Notes to Consolidated Financial Statements

(2) Financial Statement Schedules

There are no Financial Statement Schedules filed as part of this Annual Report on Form 10-K, as the required information is not applicable or is included in the Notes to Consolidated Financial Statements.

**(b) Exhibit Index:**

Exhibit Number	Description
2.1	<a href="#">Assignment Agreement dated October 3, 2016, by and between the Company, The Prudential Insurance Company of America, and Prudential Retirement Insurance and Annuity Company (filed as Exhibit 10.1 to the Company's Form 8-K filed on October 5, 2016, and incorporated herein by reference).</a>
2.2	<a href="#">Strict Foreclosure Agreement dated October 3, 2016, by and between MTBC Acquisition, Corp., MediGain, LLC and Millennium Practice Management Associates, LLC (filed as Exhibit 10.2 to the Company's Form 8-K filed on October 5, 2016, and incorporated herein by reference).</a>
2.3	<a href="#">Transition Services Agreement dated October 3, 2016, by and between MTBC Acquisition, Corp., MediGain, LLC and Millennium Practice Management Associates, LLC (filed as Exhibit 10.3 to the Company's Form 8-K filed on October 5, 2016, and incorporated herein by reference).</a>
2.4	<a href="#">First Amendment to Assignment Agreement dated January 3, 2017, by and between the Company, The Prudential Insurance Company of America, and Prudential Retirement Insurance and Annuity Company (filed as Exhibit 2.1 to the Company's Form 8-K filed on January 6, 2017, and incorporated herein by reference).</a>
2.5	<a href="#">Second Amendment to Assignment Agreement dated January 23, 2017, by and between the Company, The Prudential Insurance Company of America, and Prudential Retirement Insurance and Annuity Company (filed as Exhibit 2.1 to the Company's Form 8-K filed on January 24, 2017, and incorporated herein by reference).</a>
2.6	<a href="#">Asset Purchase Agreement dated June 25, 2018, by and between MTBC, and Orion Healthcorp, Inc. (filed as Exhibit 10.1 to the Company's Form 8-K filed on July 2, 2018, and incorporated herein by reference).</a>
2.7	<a href="#">Transition Services Agreement dated June 25, 2018, by and between MTBC, and Orion Healthcorp, Inc. (filed as Exhibit 2.29 to the Company's Form S-1 filed on September 25, 2018, and incorporated herein by reference).</a>

- 2.8 [Agreement and Plan of Merger by and among MTBC, Inc., MTBC Merger Sub, Inc., CareCloud Corporation and Runway Growth Credit Fund Inc., as the Sellers' Representative dated January 8, 2020 \(filed as Exhibit 2.1 to the Company's Form 8-K filed on January 8, 2020, and incorporated herein by reference\).](#)
- 3.1 [Amended and Restated Certificate of Incorporation of the Company dated April 4, 2014 \(filed as Exhibit 3.1 to the Company's Form S-1 filed on September 25, 2018, and incorporated herein by reference\).](#)
- 3.2 [Certificate of Amendment of Certificate of Incorporation of the Company dated June 28, 2016 \(filed as Exhibit 3.2 to the Company's Form S-1 filed on September 25, 2018, and incorporated herein by reference\).](#)
- 3.3 [Certificate of Amendment of Amended and Restated Certificate of Incorporation of the Company dated June 18, 2018 \(filed as Exhibit 3.6 to the Company's Form S-1 filed on September 25, 2018, and incorporated herein by reference\).](#)
- 3.4 [Certificate of Amendment of Amended and Restated Certificate of Incorporation of the Company dated February 6, 2019 \(filed as Exhibit 3.1 to the Company's Form 8-K filed on February 7, 2019 and incorporated herein by reference\).](#)
- 3.5 [Certificate of Amendment of Amended and Restated Certificate of Incorporation of MTBC, Inc. dated June 25, 2019 \(filed as Exhibit 3.1 to the Company's Form 8-K filed on June 25, 2019 and incorporated herein by reference\).](#)
- 3.6 [Amended and Restated Certificate of Designations, Preferences and Rights of 11% Series A Cumulative Redeemable Perpetual Preferred Stock dated July 6, 2016 \(filed as Exhibit 3.3 to the Company's Form S-1 filed on September 25, 2018, and incorporated herein by reference\).](#)
- 3.7 [First Amendment to Amended and Restated Certificate of Designations, Preferences and Rights of 11% Series A Cumulative Redeemable Perpetual Preferred Stock dated September 15, 2017 \(filed as Exhibit 3.4 to the Company's Form S-1 filed on September 25, 2018, and incorporated herein by reference\).](#)
- 3.8 [Second Amendment to Amended and Restated Certificate of Designations, Preferences and Rights of 11% Series A Cumulative Redeemable Perpetual Preferred Stock dated March 23, 2018 \(filed as Exhibit 3.5 to the Company's Form S-1 filed on September 25, 2018, and incorporated herein by reference\).](#)
- 3.9 [Third Amendment to Amended and Restated Certificate of Designations, Preferences and Rights of 11% Series A Cumulative Redeemable Perpetual Preferred Stock dated September 25, 2018 \(filed as Exhibit 3.7 to the Company's Form S-1 filed on September 25, 2018, and incorporated herein by reference\).](#)
- 3.10 [Fourth Amendment to Amended and Restated Certificate of Designations, Preferences and Rights of 11% Series A Cumulative Redeemable Perpetual Preferred Stock \(filed as Exhibit 3.1 to the Company's Form 8-K filed on January 25, 2020 and incorporated herein by reference\).](#)
- 3.11 [Amended and Restated By-laws of the Company \(filed as Exhibit 3.2 to the Company's Amendment No. 1 to Form S-1 filed on April 7, 2014, and incorporated herein by reference\).](#)
- 4.1 [Form of common stock certificate of the Company \(filed as Exhibit 4.1 to Amendment No. 2 to the Company's Form S-1 filed on May 7, 2014, and incorporated herein by reference\).](#)
- 4.2 [Form of stock certificate of the 11% Series A Cumulative Redeemable Perpetual Preferred Stock \(filed as Exhibit 4.2 to Amendment No. 2 to the Company's Form S-1 on October 19, 2015 and incorporated herein by reference\).](#)

- 4.3 [Warrant to Purchase Stock dated as of October 13, 2017 issued by the Company to Silicon Valley Bank \(filed as Exhibit 10.2 to the Company's Form 8-K filed on October 16, 2017, and incorporated herein by reference\).](#)
- 4.4 [Warrant to Purchase Stock issued by the Company on September 20, 2018 to Silicon Valley Bank \(filed as Exhibit 10.2 to the Company's Form 8-K filed on September 20, 2018, and incorporated herein by reference\).](#)
- 4.5 [Warrant to Purchase Stock issued by the Company on January 8, 2020 to Runway Growth Credit Fund Inc.](#)
- 4.6 [Warrant to Purchase Stock issued by the Company on January 8, 2020 to Runway Growth Credit Fund Inc.](#)
- 10.1 [Form of Indemnification Agreement between the Company and each of its directors and executive officers \(filed as Exhibit 10.1 to Amendment No. 2 to the Company's Form S-1 filed on May 7, 2014, and incorporated herein by reference\).](#)
- 10.2 \* [Amended and Restated Equity Incentive Plan of the Company \(filed as Appendix B to the Company's Proxy Statement on Schedule 14A filed on February 10, 2017, and incorporated herein by reference\).](#)
- 10.3 \* [First Amendment to the Amended and Restated Equity Incentive Plan of the Company \(filed as Exhibit 10.16 to the Company's Form 10-Q filed on August 8, 2018, and incorporated herein by reference\).](#)
- 10.4 \* [Form of Restricted Stock Unit Agreement under Amended and Restated Equity Incentive Plan \(filed as Exhibit 10.3 to Amendment No. 1 to the Company's Form S-1 filed on April 7, 2014, and incorporated herein by reference\).](#)
- 10.5 \* [Form of Restricted Stock Award Agreement under the Amended and Restated Equity Incentive Plan \(filed as Exhibit 10.12 to the Company's Form 10-K filed on March 24, 2016, and incorporated herein by reference\).](#)
- 10.6 [Lease between Company and Mahmud Haq with respect to offices located at 7 Clyde Road, Somerset, NJ 08873 \(filed as Exhibit 10.4 to the Company's Form S-1 filed on December 20, 2013, and incorporated herein by reference\).](#)
- 10.7 \* [Employment Agreement between the Company and Mahmud Haq dated as of May 1, 2018 \(filed as Exhibit 10.1 to the Company's Form 8-K filed on May 7, 2018, and incorporated herein by reference\).](#)
- 10.8 \* [Employment Agreement between the Company and Stephen Snyder dated as of May 1, 2018 \(filed as Exhibit 10.2 to the Company's Form 8-K filed on May 7, 2018, and incorporated herein by reference\).](#)
- 10.9 \* [Employment Agreement between the Company and A. Hadi Chaudhry dated as of May 1, 2018 \(filed as Exhibit 10.3 to the Company's Form 8-K filed on May 7, 2018, and incorporated herein by reference\).](#)
- 10.10 \* [Employment Agreement between the Company and Bill Korn dated as of May 1, 2018 \(filed as Exhibit 10.4 to the Company's Form 8-K filed on May 7, 2018, and incorporated herein by reference\).](#)
- 10.11 [Loan and Security Agreement dated as of October 13, 2017 between Medical Transcription Billing, Corp., MTBC Acquisition, Corp. and Silicon Valley Bank \(filed as Exhibit 10.1 to the Company's Form 8-K filed on October 16, 2017, and incorporated herein by reference\).](#)
- 10.12 [Joinder and First Loan Modification Agreement dated as of September 20, 2018 between Medical Transcription Billing, Corp., MTBC Acquisition, Corp., MTBC Health, Inc. and MTBC Practice Management, Corp. and Silicon Valley Bank \(filed as Exhibit 10.1 to the Company's Form 8-K filed on September 20, 2018, and incorporated herein by reference\).](#)

10.13	<a href="#"><u>Asset Purchase Agreement dated March 27, 2019, by and between MTBC-Med, Inc., and Etransmedia Technology, Inc., et. al. (filed as Exhibit 10.1 to the Company's Form 8-K filed on March 28, 2019, and incorporated herein by reference).</u></a>
10.14	<a href="#"><u>Amended and Restated Asset Purchase Agreement dated April 3, 2019, by and between MTBC-Med, Inc., and Etransmedia Technology, Inc., et. al. (filed as Exhibit 10.1 to the Company's Form 8-K filed on April 4, 2019, and incorporated herein by reference).</u></a>
10.15	<a href="#"><u>Second Loan Modification Agreement dated November 15, 2019, by and between the Company and SVB (filed as Exhibit 1.1 to the Company's Form 8-K filed on November 21, 2019, and incorporated herein by reference).</u></a>
10.16	<a href="#"><u>Joinder and Third Loan Modification Agreement dated as of February 28, 2020 between MTBC, Inc., MTBC Acquisition Corp., MTBC Health, Inc. and MTBC Practice Management Corp., MTBC-Med, Inc., CareCloud Corporation and Silicon Valley Bank.</u></a>
10.17	<a href="#"><u>Escrow Agreement dated January 8, 2020 by and among MTBC, Inc., Runway Growth Credit Fund Inc., and TD Bank</u></a>
21.1	<a href="#"><u>List of subsidiaries.</u></a>
23.1	<a href="#"><u>Consent of Grant Thornton LLP.</u></a>
31.1	<a href="#"><u>Certification of the Company's Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), of the Securities Exchange Act of 1934, as amended.</u></a>
31.2	<a href="#"><u>Certification of the Company's Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), of the Securities Exchange Act of 1934, as amended.</u></a>
32.1	<a href="#"><u>Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
32.2	<a href="#"><u>Certification of the Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
101.INS	XBRL Instance
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase

\* Indicates management contract or compensatory plan or arrangement.

The certifications on Exhibit 32 hereto are deemed not "filed" for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, or otherwise subject to the liability of that Section. Such certifications will not be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.

### Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MTBC, Inc.

By: /s/ Stephen Snyder

Stephen Snyder  
Chief Executive Officer  
Date: February 28, 2020

By: /s/ Bill Korn

Bill Korn  
Chief Financial Officer  
Date: February 28, 2020

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

<b>Signature</b>	<b>Title</b>	<b>Date</b>
<u>/s/ Mahmud Haq</u> Mahmud Haq	Executive Chairman and Director	February 28, 2020
<u>/s/ Stephen Snyder</u> Stephen Snyder	Principal Executive Officer and Director	February 28, 2020
<u>/s/ Bill Korn</u> Bill Korn	Principal Financial Officer	February 28, 2020
<u>/s/ Norman Roth</u> Norman Roth	Principal Accounting Officer	February 28, 2020
<u>/s/ A. Hadi Chaudhry</u> A. Hadi Chaudhry	President and Director	February 28, 2020
<u>/s/ Anne Busquet</u> Anne Busquet	Director	February 28, 2020
<u>/s/ Howard L. Clark, Jr.</u> Howard L. Clark, Jr.	Director	February 28, 2020
<u>/s/ John N. Daly</u> John N. Daly	Director	February 28, 2020
<u>/s/ Cameron Munter</u> Cameron Munter	Director	February 28, 2020

## Index to Consolidated Financial Statements

<a href="#"><u>Report of Independent Registered Public Accounting Firm</u></a>	F-2
<a href="#"><u>Consolidated Balance Sheets as of December 31, 2019 and 2018</u></a>	F-3
<a href="#"><u>Consolidated Statements of Operations for the years ended December 31, 2019 and 2018</u></a>	F-4
<a href="#"><u>Consolidated Statements of Comprehensive Loss for the years ended December 31, 2019 and 2018</u></a>	F-5
<a href="#"><u>Consolidated Statements of Shareholders' Equity for the years ended December 31, 2019 and 2018</u></a>	F-6
<a href="#"><u>Consolidated Statements of Cash Flows for the years ended December 31, 2019 and 2018</u></a>	F-7
<a href="#"><u>Notes to Consolidated Financial Statements</u></a>	F-8

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Shareholders  
MTBC, Inc.

**Opinion on the financial statements**

We have audited the accompanying consolidated balance sheets of MTBC, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive loss, changes in shareholders' equity and cash flows for each of the two years in the period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

**Basis for opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ GRANT THORNTON LLP

We have served as the Company's auditor since 2015.

Iselin, NJ  
February 28, 2020

**MTBC, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF DECEMBER 31, 2019 AND 2018**

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 19,994,134	\$ 14,472,483
Accounts receivable - net of allowance for doubtful accounts of \$256,000 and \$189,000 at December 31, 2019 and December 31, 2018, respectively	6,995,343	7,331,474
Contract asset	2,385,334	2,608,631
Inventory	491,088	444,437
Current assets - related party	13,200	25,203
Prepaid expenses and other current assets	1,123,036	1,191,445
Total current assets	31,002,135	26,073,673
Property and equipment - net	2,907,516	1,832,187
Operating lease right-of-use assets	3,526,315	-
Intangible assets - net	5,977,225	6,634,003
Goodwill	12,633,696	12,593,795
Other assets	356,578	489,703
<b>TOTAL ASSETS</b>	<b>\$ 56,403,465</b>	<b>\$ 47,623,361</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 3,490,834	\$ 2,438,267
Accrued compensation	1,836,309	1,731,063
Accrued expenses	2,111,515	1,589,009
Deferred rent (current portion)	-	90,657
Operating lease liability (current portion)	1,688,772	-
Deferred revenue (current portion)	20,277	25,355
Accrued liability to related party	663	10,663
Notes payable (current portion)	283,675	277,776
Contingent consideration	-	526,432
Dividend payable	1,745,791	1,468,724
Total current liabilities	11,177,836	8,157,946
Notes payable	83,275	222,400
Deferred rent	-	189,366
Operating lease liability	2,040,772	-
Deferred revenue	18,745	18,949
Deferred tax liability	244,512	164,346
Total liabilities	13,565,140	8,753,007
<b>COMMITMENTS AND CONTINGENCIES (NOTE 11)</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, \$0.001 par value - authorized 7,000,000 and 4,000,000 shares at December 31, 2019 and December 31, 2018, respectively; issued and outstanding 2,539,325 and 2,136,289 shares at December 31, 2019 and December 31, 2018, respectively	2,539	2,136
Common stock, \$0.001 par value - authorized 29,000,000 and 19,000,000 shares at December 31, 2019 and December 31, 2018, respectively; issued 12,978,485 and 12,570,557 shares at December 31, 2019 and December 31, 2018, respectively; 12,237,686 and 11,829,758 shares outstanding at December 31, 2019 and December 31, 2018, respectively	12,979	12,571
Additional paid-in capital	69,403,366	65,142,460
Accumulated deficit	(25,075,545)	(24,203,745)
Accumulated other comprehensive loss	(843,014)	(1,421,068)
Less: 740,799 common shares held in treasury, at cost at December 31, 2019 and December 31, 2018	(662,000)	(662,000)
<b>Total shareholders' equity</b>	<b>42,838,325</b>	<b>38,870,354</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 56,403,465</b>	<b>\$ 47,623,361</b>

See notes to consolidated financial statements.

**MTBC, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

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	December 31,	
	2019	2018
NET REVENUE	\$ 64,438,594	\$ 50,545,781
OPERATING EXPENSES:		
Direct operating costs	41,186,024	31,252,535
Selling and marketing	1,521,815	1,611,982
General and administrative	17,911,797	16,264,473
Research and development	870,780	1,029,510
Change in contingent consideration	(343,768)	73,271
Depreciation and amortization	3,005,606	2,853,827
Restructuring and impairment charges	219,013	-
Total operating expenses	<u>64,371,267</u>	<u>53,085,598</u>
OPERATING INCOME (LOSS)	67,327	(2,539,817)
OTHER:		
Interest income	262,001	100,788
Interest expense	(382,673)	(351,168)
Other (expense) income - net	<u>(625,675)</u>	<u>494,332</u>
LOSS BEFORE PROVISION FOR INCOME TAXES	(679,020)	(2,295,865)
Income tax provision (benefit)	192,780	(157,385)
NET LOSS	<u>\$ (871,800)</u>	<u>\$ (2,138,480)</u>
Preferred stock dividend	6,386,154	4,823,987
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	<u>\$ (7,257,954)</u>	<u>\$ (6,962,467)</u>
Net loss per common share: basic and diluted	\$ (0.60)	\$ (0.59)
Weighted-average common shares used to compute basic and diluted loss per share	12,087,947	11,721,232

See notes to consolidated financial statements.

**MTBC, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

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	<b>2019</b>	<b>2018</b>
NET LOSS	\$ (871,800)	\$ (2,138,480)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX		
Foreign currency translation adjustment (a)	578,054	(699,998)
COMPREHENSIVE LOSS	<u>\$ (293,746)</u>	<u>\$ (2,838,478)</u>

(a) No tax effect has been recorded as the Company recorded a valuation allowance against the tax benefit from its foreign currency translation adjustments.

See notes to consolidated financial statements.

**MTBC, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Other Comprehensive Loss	Treasury (Common) Stock	Total Shareholders' Equity
	Shares	Amount	Shares	Amount					
Balance - December 31, 2017 before adoption of ASC 606	1,086,739	\$ 1,087	12,271,390	\$ 12,272	\$ 45,129,517	\$ (23,509,386)	\$ (721,070)	\$ (662,000)	\$ 20,250,420
Cumulative effect of adopting ASC 606	-	-	-	-	-	1,444,121	-	-	1,444,121
Balance - January 1, 2018 after adoption	1,086,739	\$ 1,087	12,271,390	\$ 12,272	\$ 45,129,517	\$ (22,065,265)	\$ (721,070)	\$ (662,000)	\$ 21,694,541
Net loss	-	-	-	-	-	(2,138,480)	-	-	(2,138,480)
Foreign currency translation adjustment	-	-	-	-	-	-	(699,998)	-	(699,998)
Issuance of stock under the equity incentive plan	29,550	29	299,167	299	(328)	-	-	-	-
Common stock warrants issued	-	-	-	-	101,989	-	-	-	101,989
Stock-based compensation, net of cash settlements	-	-	-	-	2,264,223	-	-	-	2,264,223
Tax withholding obligations on stock issued to employees	-	-	-	-	(345,500)	-	-	-	(345,500)
Issuance of preferred stock, net of fees and expenses	1,020,000	1,020	-	-	22,816,546	-	-	-	22,817,566
Preferred stock dividends	-	-	-	-	(4,823,987)	-	-	-	(4,823,987)
Balance - December 31, 2018	<u>2,136,289</u>	<u>\$ 2,136</u>	<u>12,570,557</u>	<u>\$ 12,571</u>	<u>\$ 65,142,460</u>	<u>\$ (24,203,745)</u>	<u>\$ (1,421,068)</u>	<u>\$ (662,000)</u>	<u>\$ 38,870,354</u>
Balance - January 1, 2019	2,136,289	\$ 2,136	12,570,557	\$ 12,571	\$ 65,142,460	\$ (24,203,745)	\$ (1,421,068)	\$ (662,000)	\$ 38,870,354
Net loss	-	-	-	-	-	(871,800)	-	-	(871,800)
Foreign currency translation adjustment	-	-	-	-	-	-	578,054	-	578,054
Issuance of stock under the equity incentive plan	30,006	30	407,928	408	(438)	-	-	-	-
Issuance of preferred stock, net of fees and expenses	373,030	373	-	-	9,585,769	-	-	-	9,586,142
Stock-based compensation, net of cash settlements	-	-	-	-	1,920,533	-	-	-	1,920,533
Tax withholding obligations on stock issued to employees	-	-	-	-	(858,804)	-	-	-	(858,804)
Preferred stock dividends	-	-	-	-	(6,386,154)	-	-	-	(6,386,154)
Balance - December 31, 2019	<u>2,539,325</u>	<u>\$ 2,539</u>	<u>12,978,485</u>	<u>\$ 12,979</u>	<u>\$ 69,403,366</u>	<u>\$ (25,075,545)</u>	<u>\$ (843,014)</u>	<u>\$ (662,000)</u>	<u>\$ 42,838,325</u>

For all periods presented, the preferred stock dividends were paid monthly at the rate of \$2.75 per share per annum.

See notes to consolidated financial statements.

**MTBC, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>OPERATING ACTIVITIES:</b>		
Net loss	\$ (871,800)	\$ (2,138,480)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	3,070,497	2,913,866
Deferred rent	-	(61,058)
Lease amortization	1,888,443	-
Deferred revenue	(5,282)	(46,415)
Provision for doubtful accounts	118,429	723,611
Provision (benefit) for deferred income taxes	80,166	(207,726)
Foreign exchange loss (gain)	827,121	(434,806)
Interest accretion	497,598	191,065
Gain on sale of assets	(38,388)	-
Stock-based compensation expense	3,215,661	2,463,599
Change in contingent consideration	(343,768)	73,271
Changes in operating assets and liabilities, net of businesses acquired:		
Accounts receivable	765,079	1,479,297
Contract asset	362,466	(404,598)
Inventory	(46,651)	(137,159)
Other assets	(529,345)	248,347
Accounts payable and other liabilities	(1,372,239)	2,149,660
Net cash provided by operating activities	7,617,987	6,812,474
<b>INVESTING ACTIVITIES:</b>		
Capital expenditures and capitalized software, net	(2,558,159)	(1,028,249)
Cash paid for acquisitions	(1,600,000)	(12,600,000)
Net cash used in investing activities	(4,158,159)	(13,628,249)
<b>FINANCING ACTIVITIES:</b>		
Proceeds from issuance of preferred stock, net of fees and expenses	9,586,142	22,817,566
Preferred stock dividends paid	(6,109,087)	(4,102,410)
Settlement of tax withholding obligations on stock issued to employees	(1,391,746)	(333,007)
Proceeds from line of credit	-	11,276,862
Repayments of line of credit	-	(11,276,862)
Repayments of notes payable, net	(430,444)	(464,167)
Contingent consideration payments	(182,664)	(150,250)
Other financing activities	(50,000)	(111,195)
Net cash provided by financing activities	1,422,201	17,656,537
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	639,622	(730,511)
<b>NET INCREASE IN CASH</b>	5,521,651	10,110,251
CASH - beginning of the period	14,472,483	4,362,232
CASH - end of the period	\$ 19,994,134	\$ 14,472,483
<b>SUPPLEMENTAL NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Vehicle financing obtained	\$ 24,909	\$ 90,284
Dividends declared, not paid	\$ 1,745,791	\$ 1,468,724
Purchase of prepaid insurance through assumption of note	\$ 301,359	\$ 271,248
Warrants issued	\$ -	\$ 101,989
<b>SUPPLEMENTAL INFORMATION - Cash paid during the period for:</b>		
Income taxes	\$ 119,265	\$ 42,057
Interest	\$ 67,273	\$ 64,669

See notes to consolidated financial statements.

**MTBC, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

## **1. ORGANIZATION AND BUSINESS**

MTBC, Inc., (and together with its subsidiaries "MTBC" or the "Company") is a healthcare information technology company that offers an integrated suite of proprietary cloud-based electronic health records and practice management solutions, together with related business services, to healthcare providers. The Company's integrated services are designed to help customers increase revenues, streamline workflows and make better business and clinical decisions, while reducing administrative burdens and operating costs. The Company's services include full-scale revenue cycle management, comprehensive practice management services, electronic health records, and other technology-driven practice management services for private and hospital-employed healthcare providers. MTBC has its corporate offices in Somerset, New Jersey and maintains client support teams throughout the U.S., in Pakistan and in Sri Lanka.

MTBC was founded in 1999 and incorporated under the laws of the State of Delaware in 2001. In 2004, MTBC formed MTBC Private Limited (or "MTBC Pvt. Ltd."), a 99.9% majority-owned subsidiary of MTBC based in Pakistan. The remaining 0.01% of the shares of MTBC Pvt. Ltd. is owned by the founder and Executive Chairman of MTBC. In 2016, MTBC formed MTBC Acquisition Corp. ("MAC"), a Delaware corporation, in connection with its acquisition of substantially all of the assets of MediGain, LLC and its subsidiary, Millennium Practice Management Associates, LLC (together "MediGain"). MAC has a wholly owned subsidiary in Sri Lanka, RCM MediGain Colombo, Pvt. Ltd. In May 2018, MTBC formed MTBC Health, Inc. ("MHI") and MTBC Practice Management, Corp. ("MPM"), each a Delaware corporation in connection with MTBC's acquisition of substantially all of the revenue cycle management, practice management and group purchasing organization assets of Orion Healthcorp, Inc. and 13 of its affiliates (together, "Orion"). MHI is a direct, wholly owned subsidiary of MTBC, and was formed to own and operate the revenue cycle management and group purchasing organization businesses acquired from Orion. MPM is a wholly owned subsidiary of MHI and was formed to own and operate the practice management business acquired from Orion.

The Company's previous subsidiary in Poland was liquidated in 2018. The operations in the Indian subsidiary have been terminated and the subsidiary is being liquidated.

In April 2019, MTBC formed MTBC-Med, Inc. ("MED"), a Delaware corporation in connection with MTBC's acquisition of substantially all of the revenue cycle management assets of Etransmedia Technology, Inc. ("ETM"). (See Note 3).

## **2. SIGNIFICANT ACCOUNTING POLICIES**

**Principles of Consolidation** — The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of MTBC, its wholly-owned subsidiaries; MAC (since October 3, 2016), MHI (since May 2018), MPM (since May 2018), MED (since April 1, 2019) its majority-owned subsidiary MTBC Pvt. Ltd, MTBC-MED (since April 2019) and since October 3, 2016, the operating results and financial condition of the acquired subsidiary in Sri Lanka. The non-controlling interest of MTBC Pvt. Ltd. is inconsequential to the consolidated financial statements. All intercompany accounts and transactions have been eliminated in consolidation.

**Segment Reporting** — The Company views its operations as comprising two operating segments, Healthcare IT and Practice Management. The chief operating decision maker ("CODM") monitors and reviews financial information at these segment levels for assessing operating results and the allocation of resources.

**Use of Estimates** — The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions made by management include, but are not limited to: (1) impairment of long-lived assets, (2) depreciable lives of assets, (3) allowance for doubtful accounts, (4) contingent consideration, (5) estimates of variable consideration related to the contract asset, (6) fair value of identifiable purchased tangible and intangible assets, including determination of expected customer life, (7) stock-based compensation, and (8) estimating lease terms and incremental borrowing rates. Actual results could significantly differ from those estimates.

**Revenue Recognition** — On January 1, 2018, the Company adopted Accounting Standards Codification, “*Revenue from Contracts with Customers*,” (“ASC 606”) using the modified retrospective method as applied to certain medical billing services that were in process as of January 1, 2018. As a result, financial information for reporting periods beginning on or after January 1, 2018, are presented in accordance with ASC 606. Comparative financial information for reporting periods beginning prior to January 1, 2018, have not been adjusted and continue to be reported in accordance with the Company’s revenue recognition policies prior to the adoption of ASC 606. The Company recorded a cumulative adjustment related to the adoption of ASC 606. The primary impact of adopting ASC 606 was to accelerate the timing of revenue on certain medical billing services provided to customers. Beginning January 1, 2018, revenue is recognized as the performance obligations are satisfied over time.

We derive revenue from seven primary sources: (1) revenue cycle management services, (2) professional services, (3) ancillary services, (4) group purchasing services, (5) printing and mailing services, (6) clearinghouse and EDI (electronic data interchange) services and (7) practice management services. All of our revenue arrangements are based on contracts with customers. Most of our contracts with customers contain single performance obligations, although certain contracts do contain multiple performance obligations where we perform more than one service for the same customer. We account for individual performance obligations separately if they are distinct within the context of the contract. For contracts where we provide multiple services such as where we perform multiple ancillary services, each service represents its own performance obligation. Selling or transaction prices are based on the contractual price for the service.

A five-step approach is applied in the recognition of revenue under ASC 606: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when we satisfy a performance obligation.

Although we believe that our approach to estimates and judgments is reasonable, actual results could differ, and we may be exposed to increases or decreases in revenue that could be material. Our estimates of variable consideration may prove to be inaccurate, in which case we may have understated or overstated the revenue recognized in a reporting period. The amount of variable consideration recognized to date that remains subject to estimation is included within the contract asset within the consolidated balance sheet.

Payment of invoices is due as specified in the underlying customer agreement, typically 30 days from the invoice date, which occurs on the date of transfer of control of the services to the customer. Since payment terms are less than a year, we have elected the practical expedient and do not assess whether a customer contract has a significant financing component.

The Company’s revenue arrangements generally do not include a general right of refund for services provided (See Note 9, Revenue for additional information).

**Direct Operating Costs** — Direct operating costs consist primarily of salaries and benefits related to personnel who provide services to clients and at our managed medical practices, claims processing costs, medical supplies at our managed practices and other direct costs related to the Company’s services. Costs associated with the implementation of new clients are expensed as incurred. The reported amounts of direct operating costs include allocated amounts for rent expense and overhead costs.

**Selling and Marketing Expenses** — Selling and marketing expenses consist primarily of compensation and benefits, travel and advertising expenses and are expensed as incurred. The Company incurred approximately \$810,000 and \$950,000 of advertising costs for the years ended December 31, 2019 and 2018, respectively.

**Research and Development Expenses** — Research and development expenses consist primarily of personnel-related costs incurred performing market research, analyzing proposed products and developing new products.

**Internal-Use Software Costs** — The Company capitalizes certain development costs incurred in connection with its internal-use software. Costs incurred in the preliminary stages of development are expensed as incurred. Once an application has reached the development stage, internal and external costs, if direct, are capitalized until the software is substantially complete and ready for its intended use. Capitalization ceases upon completion of all substantial testing. The Company also capitalizes costs related to specific upgrades and enhancements when it is probable that the expenditures will result in additional functionality. Capitalized costs are recorded as part of intangible assets. Maintenance and training costs are expensed as incurred. Internal use software is amortized on a straight line basis over its estimated useful life, generally three years. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets. During the years ended December 31, 2019 and 2018, the Company capitalized approximately \$538,000 and \$62,000, respectively, of salaries and payroll-related costs of employees and consultants who devoted time to the development of customer related projects.

**Accounts Receivable** — Accounts receivable are stated at their net realizable value. Accounts receivable are presented on the consolidated balance sheet net of an allowance for doubtful accounts, which is established based on reviews of the accounts receivable aging, an assessment of the customers' history and current creditworthiness and the probability of collection. Accounts are written off when it is determined that collection of the outstanding balance is no longer probable.

The movement in the allowance for doubtful accounts for the years ended December 31, 2019 and 2018 was as follows:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Beginning balance	\$ 189,000	\$ 185,000
Provision	118,000	724,000
Recoveries	316,000	-
Write-offs	(367,000)	(720,000)
Ending balance	<b>\$ 256,000</b>	<b>\$ 189,000</b>

**Inventory** — Inventory is stated at the lower of cost or market using the first-in, first out method of inventory valuation accounting. Inventory consists of vaccines used at the managed practices and only includes the cost of the vaccines themselves.

**Property and Equipment** — Property and equipment are stated at cost, less accumulated depreciation. Depreciation is calculated using the straight-line basis over the estimated useful lives of the assets ranging from three to five years. Ordinary maintenance and repairs are expensed as incurred. Depreciation for computers is calculated over three years, while remaining assets (except leasehold improvements) are depreciated over five years. The Company amortizes leasehold improvements over the lesser of the lease term or the remaining economic life of those assets. Generally, the lease term is the base lease term plus certain renewal option periods for which renewal is reasonably certain and for which failure to exercise the renewal option would result in an economic penalty to the Company.

**Intangible Assets** — Intangible assets include customer relationships, covenants not-to-compete acquired in connection with acquisitions, software purchase and development costs and trademarks acquired. Amortization for intangible assets related to revenue cycle management is recorded primarily using the double declining balance method over three to four years. Amortization for intangible assets related to the group purchasing organization and practice management is recorded on a straight line basis over four and twelve years, respectively.

**Evaluation of Long-Lived Assets** — The Company reviews its long-lived assets for impairment whenever changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the sum of undiscounted expected future cash flows is less than the carrying amount of the asset group, the Company will recognize an impairment loss based on the fair value of the asset.

There was no impairment of internal-use software costs, intangible assets or property and equipment during the years ended December 31, 2019 and 2018, other than the impairment recorded on one right-of-use ("ROU") asset of approximately \$170,000 for the year ended December 31, 2019.

**Goodwill** — Goodwill consists of the excess of the purchase price over the fair value of identifiable net assets of businesses acquired. The Company tests goodwill for impairment annually as of October 31<sup>st</sup>, referred to as the annual test date. Conditions that could trigger a more frequent impairment assessment include, but are not limited to, a significant adverse change to the Company in certain agreements, significant underperformance relative to historical or projected future operating results, loss of customer relationships, an economic downturn in customers' industries, or increased competition. Impairment testing for goodwill is performed at the reporting-unit level. The Company has determined that its business consists of two operating segments and two reporting units. No impairment charges were recorded during the years ended December 31, 2019 or 2018.

**Treasury Stock** — Treasury stock is recorded at cost and represents shares repurchased by the Company. No shares were repurchased or issued from treasury stock during the years ended December 31, 2019 and 2018.

**Stock-Based Compensation** — The Company recognizes compensation for all share-based payments granted based on the grant date fair value. Compensation expense is generally recognized on a straight-line basis over the vesting period. The Company does not estimate forfeitures in recognizing the expense for share-based payments, as historical forfeiture rates have not been significant. For restricted stock units ("RSUs") classified as equity, the market price of our common stock on the date of grant is used in recording the fair value of the award. For RSUs classified as a liability, the earned amount is marked to market based on the end-of-period common stock price.

**Business Combinations** — The Company accounts for business combinations under the provisions of ASC 805, *Business Combinations*, which requires that the acquisition method of accounting be used for all business combinations. Assets acquired and liabilities assumed are recorded at the date of acquisition at their respective fair values. ASC 805 also specifies criteria that intangible assets acquired in a business combination must be recognized and reported apart from goodwill. Goodwill represents the excess purchase price over the fair value of the tangible net assets and intangible assets acquired in a business combination. Acquisition-related expenses are recognized separately from the business combinations and are expensed as incurred. If the business combination provides for contingent consideration, the Company records the contingent consideration at fair value at the acquisition date with changes in the fair value recorded through earnings.

Acquisition costs are expensed as incurred. During the years ended December 31, 2019 and 2018, the Company incurred approximately \$125,000 and \$245,000 of professional fees related to the acquisitions discussed in Note 3, which are included in general and administrative expenses in the consolidated statements of operations. Acquisition costs for the CareCloud acquisition discussed in Note 20 were approximately \$129,000 for the year ended December 31, 2019 and are included in general and administrative expenses.

**Income Taxes** — The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in operations in the period that includes the enactment date.

The Company records net deferred tax assets to the extent that these assets will more likely than not be realized. All available positive and negative evidence is considered in making such a determination, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies, and results of recent operations. A valuation allowance would be recorded to reduce deferred income tax assets when it is determined that it is more likely than not that the Company would not be able to realize its deferred income tax assets in the future in excess of their net recorded amount.

The Company records uncertain tax positions on the basis of a two-step process whereby (1) the Company determines whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is greater than 50 percent likely to be realized upon ultimate settlement with the related tax authority. At December 31, 2019 and 2018, the Company did not have any uncertain tax positions that required recognition. Interest and penalties related to uncertain tax positions are recognized in income tax expense.

For the years ended December 31, 2019 and 2018, the Company did not recognize any penalties or interest related to unrecognized tax benefits in its consolidated financial statements.

**Dividends** — Dividends are recorded when declared by the Company's Board of Directors. The Board of Directors has declared monthly dividends on the Series A Preferred Stock ("Preferred Stock") through February 2020. Preferred Stock dividends are charged against paid in capital because the Company does not have sufficient retained earnings. The Company is prohibited from paying dividends on its common stock without the prior written consent of its lender, Silicon Valley Bank ("SVB").

**Deferred Rent** — Deferred rent at December 31, 2018, consisted of rent escalation payment terms related to the Company's operating leases for its facilities. Deferred rent represented the difference between actual operating lease payments due and straight-line rent expense, which is recorded by the Company over the term of the lease, including any construction period. The excess of the difference between actual operating lease payments due and straight-line rent expense is recorded as a deferred credit in the early periods of the lease when cash payments are generally lower than straight-line rent expense, and is reduced in the later periods of the lease when payments begin to exceed the straight-line expense. As a result of the Company's adoption of ASC 842 as of January 1, 2019, deferred rent is no longer recorded on the consolidated balance sheet.

**Deferred Revenue** — Deferred revenue primarily consists of payments received in advance of the revenue recognition criteria being met. Deferred revenue includes certain deferred implementation services fees that are recognized as revenue ratably over the longer of the life of the agreement or the estimated expected customer life, which is currently estimated to be three years. Deferred revenue that will be recognized during the succeeding 12-month period is recorded as current deferred revenue and the remaining portion is recorded as non-current. At the time of customer termination, any unrecognized service fees associated with implementation services are recognized as revenue.

**Fair Value Measurements** — ASC 820, *Fair Value Measurement*, requires the disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. The Company follows a fair value measurement hierarchy to measure financial instruments. The fair value of the Company's financial instruments is measured using inputs from the three levels of the fair value hierarchy as follows:

Level 1 — Inputs are unadjusted quoted market prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 — Inputs are directly or indirectly observable, which include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — Inputs are unobservable inputs that are used to measure fair value to the extent observable inputs are not available.

The Company's contingent consideration is a Level 3 liability and is measured at fair value at the end of each reporting period. The Company has certain financial instruments that are not measured at fair value on a recurring basis. These financial instruments are subject to fair value adjustments only in certain circumstances and include cash, accounts receivable, accounts payable and accrued expenses, borrowings under term loans and line of credit, and notes payable. Due to the short term nature of these financial instruments and that the borrowings, with the exception of the payable to the managed practices (see Note 8) bear interest at prevailing market rates, the carrying value approximates the fair value.

**Foreign Currency Translation** — The financial statements of the Company's foreign subsidiaries are translated from their functional currency into U.S. dollars, the Company's functional currency. All foreign currency assets and liabilities are translated at the period-end exchange rate, and all revenue and expenses are translated at transaction date exchange rates. The effects of translating the financial statements of the foreign subsidiaries into U.S. dollars are reported as a cumulative translation adjustment, a separate component of accumulated other comprehensive loss in the consolidated statements of shareholders' equity, except for transactions related to the intercompany receivable for which transaction adjustments are recorded in the consolidated statements of operations as they are not deemed to be permanently reinvested. Foreign currency transaction gains/losses are reported as a component of other income – net in the consolidated statements of operations and amounted to a loss of approximately \$827,000 and a gain of approximately \$435,000 for the years ended December 31, 2019 and 2018, respectively.

**Stock Offering Costs** — Common and Preferred Stock offering costs consist principally of professional fees, primarily legal and accounting, and other costs such as printing and registration costs incurred in connection with the issuance of the common stock and the Preferred Stock in 2019 and 2018. In connection with the 2019 and 2018 equity offerings, the Company incurred approximately \$110,000 and \$282,000, respectively, of such costs, excluding underwriting commissions and placement agent fees.

**Restructuring and Impairment Charges** — Restructuring charges represent the remaining lease costs for a facility no longer used by the Company as the employees were transferred to another Company facility. Impairment charges represent charges recorded for a leased facility no longer being used by the Company. The Company is marketing the facility for sublease and recorded the difference between the contractual rent obligation and the estimated sub-lease payments as an impairment charge.

**Debt Acquisition Costs** — Costs incurred in connection with the acquisition of bank financing are deferred and amortized over the estimated term of the related financing. Such amortization is included in interest expense.

**Recent Accounting Pronouncements** — From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board ("FASB") and are adopted by us as of the specified effective date. Unless otherwise discussed, we believe that the impact of recently adopted and recently issued accounting pronouncements will not have a material impact on our consolidated financial position, results of operations and cash flows.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments*. The guidance in Accounting Standards Update ("ASU") 2016-13 replaces the incurred loss impairment methodology under current GAAP. The new impairment model requires immediate recognition of estimated credit losses expected to occur for most financial assets and certain other instruments. It will apply to all entities. For trade receivables, loans and held-to-maturity debt securities, entities will be required to estimate lifetime expected credit losses. This may result in the earlier recognition of credit losses. In November, the FASB issued ASU No. 2019-10, which delays this standard's effective date for SEC smaller reporting companies to the fiscal years beginning on or after December 15, 2022.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The new standard requires organizations that have leased assets, referred to as "lessees," to recognize on the balance sheet the assets and liabilities that represent the rights and obligations created by those leases, respectively. Under the new guidance, a lessee is required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP which requires only capital leases to be recognized on the balance sheet, the new ASU requires both types of leases to be recognized on the balance sheet. The FASB has subsequently issued further ASU's related to the standard providing additional practical expedients and an optional transition method allowing entities to not recast comparative periods. The amendments in ASU No. 2016-02 are now effective.

We adopted the standard on January 1, 2019 using the optional transition adjustment method. As part of the adoption of ASC 842, we performed an assessment of the impact that the new lease recognition standard has on the consolidated financial statements. All of our leases, which consist of facility and equipment leases, have been classified as operating leases. The Company does not have any financing leases. We adopted the requirements of the new standard without restating the prior periods. There was no impact to the accumulated deficit as of the date of adoption. For leases in place at the transition date, we adopted the package of practical expedients that allows us to not reassess: (1) whether any expired or existing contracts are or contain leases, (2) lease classification for any expired or existing leases and (3) initial direct costs for any expired or existing leases.

We have also adopted the practical expedients that allow us to treat the lease and non-lease components of our leases as a single component for our facility leases. We elected the short-term lease recognition exemption for all leases that qualify. As such, for those leases that qualify, we did not recognize ROU asset or lease liabilities as part of the transition adjustment. As of January 1, 2019, the impact on the consolidated assets was approximately \$4.2 million and the impact on the consolidated liabilities was approximately \$4.4 million. The adoption of ASC 842 did not have a material effect on the Company's results of operations, stockholders' equity, or statement of cash flows.

On February 14, 2018, the FASB issued ASU 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. These amendments provide financial statement preparers with an option to reclassify standard tax effects within accumulated other comprehensive income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recorded. This guidance is effective for fiscal years beginning after December 15, 2018, and interim periods therein. There was no impact on the consolidated financial statements as a result of this standard.

In June 2018, the FASB issued ASU 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting*. This ASU simplifies the accounting for nonemployee share-based payments by aligning it with the accounting for share-based payments to employees, with exceptions. Under this guidance, the measurement of equity-classified nonemployee awards will be fixed at the grant date, which may lower their cost and reduce volatility in the income statement. Awards to nonemployees are measured by estimating the fair value of the equity instruments to be issued, rather than the fair value of the goods or services received or the fair value of the equity instruments issued, whichever can be measured more reliably. Entities need to consider the probability that a performance condition will be satisfied when an award contains such condition. The guidance is effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. There was no impact on the consolidated financial statements as a result of this standard.

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes*. This ASU simplifies accounting for income taxes to reduce complexity in the accounting standards. The amendments consist of the removal of certain exceptions to the general principles of ASC 740 and some additional simplifications. The amendments are not required to be implemented until 2021 for public entities. The Company is in the process of investigating if this update will have a significant impact on the consolidated financial statements.

### **3. ACQUISITIONS**

#### **2019 Acquisition**

On April 3, 2019, the Company executed an asset purchase agreement ("APA") to acquire substantially all of the assets of ETM. The purchase price was \$1.6 million and the assumption of certain liabilities, excluding acquisition-related costs of approximately \$125,000. Per the APA, the acquisition had an effective date of April 1, 2019. The acquisition has been accounted for as a business combination.

The ETM acquisition added additional clients to the Company's customer base and, similar to previous acquisitions, broadened the Company's presence in the healthcare information technology industry through geographic expansion of its customer base and by increasing available customer relationship resources and specialized trained staff.

The purchase price allocation for ETM was performed by the Company and is summarized as follows:

Customer relationships	\$ 856,000
Accounts receivable	547,377
Contract asset	139,169
Operating lease right-of-use assets	1,224,480
Property and equipment	91,277
Goodwill	39,901
Operating lease liabilities	(1,224,480)
Accrued expenses	(73,724)
Total	<u>\$ 1,600,000</u>

The acquired accounts receivable are recorded at fair value which represents amounts that have subsequently been paid or are expected to be paid by clients. The fair value of customer relationships was based on the estimated discounted cash flows generated by these intangibles. The goodwill from this acquisition is deductible ratably for income tax purposes over fifteen years and represents the Company's ability to have an expanded local presence in additional markets and operational synergies that we expect to achieve that would not be available to other market participants.

The weighted-average amortization period of the acquired intangible assets is approximately three years.

Revenue earned beginning April 1, 2019, from the clients obtained from the ETM acquisition was approximately \$5.1 million during the year ended December 31, 2019.

#### **2018 Acquisition**

On May 7, 2018, the Company executed an asset purchase agreement ("Orion APA") to acquire substantially all of the revenue cycle, practice management, and group purchasing organization assets of Orion. The purchase price was \$12.6 million, excluding acquisition-related costs of approximately \$245,000, which are included in general and administrative expense in the consolidated statement of operations. Per the Orion APA, the acquisition had an effective date of July 1, 2018. The acquisition has been accounted for as a business combination.

The Orion acquisition added a significant number of clients to the Company's customer base and, similar to previous acquisitions, broadened the Company's presence in the healthcare information technology industry through geographic expansion of its customer base and by increasing available customer relationship resources and specialized trained staff. The acquisition also included Orion's practice management and group purchasing services. The practice management services provide three pediatric medical practices with the nurses, administrative support, facilities, supplies, equipment, marketing, RCM, accounting and other non-clinical services needed to efficiently operate the practices. The group purchasing services enable medical providers to purchase various vaccines directly from selected pharmaceutical companies at a discounted price.

The Company engaged a third party valuation specialist to assist the Company in valuing the assets and assumed liabilities acquired from Orion. The following table summarizes the purchase price allocation.

Customer relationships	\$ 6,250,000
Accounts receivable	5,654,919
Contract asset	861,341
Inventory	307,278
Property and equipment	319,352
Goodwill	329,852
Accounts payable	(677,872)
Accrued expenses	(444,870)
Total	<u>\$ 12,600,000</u>

The acquired accounts receivable are recorded at fair value which represents amounts that have subsequently been paid or are expected to be paid by clients. The inventory acquired represents vaccines held at the managed practices. The fair value of customer relationships was based on the estimated discounted cash flows generated by these intangibles. The goodwill from this acquisition is deductible ratably for income tax purposes over fifteen years and represents the Company's ability to have an expanded local presence in additional markets, operational synergies that we expect to achieve that would not be available to other market participants and the ability to offer group purchasing and practice management services.

The weighted-average amortization period of the acquired intangibles is eight years.

Revenue earned from the customers obtained from the Orion acquisition was approximately \$29 million during the year ended December 31, 2019.

In connection with some of the Company's acquisitions, contingent consideration as of December 31, 2018 was payable in the form of cash with payment terms through 2019. Depending on the terms of the agreement, if the performance measures are not achieved, the Company may pay less than the recorded amount, and if the performance measures are exceeded, the Company may pay more than the recorded amount. The contingent consideration liability was fully settled during 2019.

#### **Pro forma financial information (Unaudited)**

The unaudited pro forma information below represents the consolidated results of operations as if the Orion and ETM acquisitions occurred on January 1, 2018. It includes revenue from the clients who had cancelled prior to each acquisition and costs and expenses discontinued before each acquisition. The pro forma information has been included for comparative purposes and is not indicative of results of operations of the Company would have had if the acquisitions occurred on the above date, nor is it necessarily indicative of future results. The unaudited pro forma information reflects adjustments related to (a) additional amortization of purchased intangible assets, (b) expenses are directly attributable to the acquisitions, (c) reversal of goodwill impairment, (d) adjustments for income taxes and (e) adjustments of intercompany balances.

	Year Ended December 31,	
	2019	2018
	(\$ in thousands except per share amounts)	
Total revenue	\$ 66,480	\$ 81,876
Net loss	\$ (2,372)	\$ (12,387)
Net loss attributable to common shareholders	\$ (8,758)	\$ (17,211)
Net loss per common share	\$ (0.72)	\$ (1.47)

#### **4. GOODWILL AND INTANGIBLE ASSETS – NET**

Goodwill consists of the excess of the purchase price over the fair value of identifiable net assets of businesses acquired. The following is the summary of the changes to the carrying amount of goodwill for the years ended December 31, 2019 and 2018:

	Year Ended December 31, 2019	Year Ended December 31, 2018
Beginning gross balance	\$ 12,593,795	\$ 12,263,943
Acquisitions	39,901	329,852
Ending gross balance	\$ 12,633,696	\$ 12,593,795

At December 31, 2019, and 2018, approximately \$90,000 of goodwill was allocated to the Practice Management segment and the balance was allocated to the Healthcare IT segment.

Below is a summary of intangible asset activity for the years ended December 31, 2019 and 2018:

	<b>Customer Relationships</b>	<b>Non-Compete Agreements</b>	<b>Other Intangible Assets</b>	<b>Total</b>
<b>COST</b>				
Balance, January 1, 2019	\$ 22,741,300	\$ 1,236,377	\$ 1,477,059	\$ 25,454,736
Capitalized software costs and other intangible assets	-	-	591,509	591,509
Translation loss	-	-	(41,098)	(41,098)
Disposals	-	-	-	-
Allocation from 2019 acquisition	856,000	-	-	856,000
Balance, December 31, 2019	<u>\$ 23,597,300</u>	<u>\$ 1,236,377</u>	<u>\$ 2,027,470</u>	<u>\$ 26,861,147</u>
Useful lives	3-12 Years	3 Years	3 Years	
<b>ACCUMULATED AMORTIZATION</b>				
Balance, January 1, 2019	\$ 16,457,878	\$ 1,234,774	\$ 1,128,081	\$ 18,820,733
Amortization expense	1,855,634	1,601	205,954	2,063,189
Balance, December 31, 2019	<u>\$ 18,313,512</u>	<u>\$ 1,236,375</u>	<u>\$ 1,334,035</u>	<u>\$ 20,883,922</u>
<b>Net book value</b>	<b>\$ 5,283,788</b>	<b>\$ 2</b>	<b>\$ 693,435</b>	<b>\$ 5,977,225</b>
<b>COST</b>				
Balance, January 1, 2018	\$ 16,491,300	\$ 1,236,377	\$ 1,498,417	\$ 19,226,094
Capitalized software costs and other intangible assets	-	-	108,552	108,552
Translation loss	-	-	(129,910)	(129,910)
Allocation from 2018 acquisition	6,250,000	-	-	6,250,000
Balance, December 31, 2018	<u>\$ 22,741,300</u>	<u>\$ 1,236,377</u>	<u>\$ 1,477,059</u>	<u>\$ 25,454,736</u>
Useful lives	3-12 Years	3 Years	3 Years	
<b>ACCUMULATED AMORTIZATION</b>				
Balance, January 1, 2018	\$ 14,685,190	\$ 1,227,601	\$ 803,759	\$ 16,716,550
Amortization expense	1,772,688	7,173	324,322	2,104,183
Balance, December 31, 2018	<u>\$ 16,457,878</u>	<u>\$ 1,234,774</u>	<u>\$ 1,128,081</u>	<u>\$ 18,820,733</u>
<b>Net book value</b>	<b>\$ 6,283,422</b>	<b>\$ 1,603</b>	<b>\$ 348,978</b>	<b>\$ 6,634,003</b>

Other intangible assets primarily represent software costs. Amortization expense was approximately \$2.1 million for both the years ended December 31, 2019 and 2018. The weighted-average amortization period is seven years.

As of December 31, 2019, future amortization expense scheduled to be expensed is as follows:

<b>Year ending December 31</b>	
2020	\$ 1,437,324
2021	1,292,146
2022	959,225
2023	338,530
2024	300,000
Thereafter	1,650,000
<b>Total</b>	<b>\$ 5,977,225</b>

## 5. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2019 and 2018 consisted of the following:

	December 31, 2019	December 31, 2018
Computer equipment	\$ 2,905,892	\$ 2,389,865
Office furniture and equipment	1,145,617	1,089,014
Transportation equipment	806,009	828,417
Leasehold improvements	931,955	727,519
Assets not placed in service	1,004,252	50,362
Total property and equipment	6,793,725	5,085,177
Less accumulated depreciation	(3,886,209)	(3,252,990)
Property and equipment – net	<u>\$ 2,907,516</u>	<u>\$ 1,832,187</u>

Depreciation expense was approximately \$909,000 and \$688,000 for the years ended December 31, 2019 and 2018, respectively.

## 6. CONCENTRATIONS

**Financial Risks** — As of December 31, 2019 and 2018, the Company held cash of approximately \$1.0 million and \$77,000 respectively, in the name of its subsidiaries, at banks in Pakistan and Sri Lanka. The banking systems in these countries do not provide deposit insurance coverage. Additionally, from time to time, the Company maintains cash balances at financial institutions in the United States in excess of federal insurance limits. The Company has not experienced any losses on such accounts.

Concentrations of credit risk with respect to trade accounts receivable are managed by periodic credit evaluations of customers. The Company does not require collateral for outstanding trade accounts receivable. As of December 31, 2019, two customers individually accounted for approximately 9% and 5% of accounts receivable, respectively. As of December 31, 2018, two customers individually accounted for approximately 8% and 7% of accounts receivable respectively. During both the years ended December 31, 2019 and 2018, there was one customer with sales of approximately 10% of total revenue.

**Geographical Risks** — The Company's offices in Islamabad and Bagh, Pakistan, and Colombo, Sri Lanka conduct significant back-office operations for the Company. The Company has no revenue earned outside of the United States. The office in Bagh is located in a different territory of Pakistan from the Islamabad office. The Bagh office was opened in 2009 for the purpose of providing operational support and operating as a backup to the Islamabad office. The Company's operations outside the United States are subject to special considerations and significant risks not typically associated with companies in the United States. The Company's business, financial condition and results of operations may be influenced by the political, economic, and legal environment in the countries in which it operates and by the general state of these countries' economies. The Company's results may be adversely affected by, among other things, changes in governmental policies with respect to laws and regulations, changes in local countries' telecommunications industries, regulatory rules and policies, anti-inflationary measures, currency conversion and remittance, and rates and methods of taxation.

Carrying amounts of net assets located outside the United States were approximately \$1.7 million and \$162,000 as of December 31, 2019 and 2018, respectively. These balances exclude intercompany receivables of approximately \$7.1 million and \$7.6 million as of December 31, 2019 and 2018, respectively. The following is a summary of the net assets located outside the United States as of December 31, 2019 and 2018:

	December 31,	
	2019	2018
Current assets	\$ 1,082,233	\$ 156,265
Non-current assets	2,242,816	1,259,446
	3,325,049	1,415,711
Current liabilities	(1,270,015)	(1,044,539)
Non-current liabilities	(332,276)	(209,333)
Net assets	\$ 1,722,758	\$ 161,839

## 7. NET LOSS PER COMMON SHARE

The following table reconciles the weighted-average shares outstanding for basic and diluted net loss per common share for the years ended December 31, 2019 and 2018:

	Year Ended December 31,	
	2019	2018
<b>Basic and Diluted:</b>		
Net loss attributable to common shareholders	\$ (7,257,954)	\$ (6,962,467)
Weighted-average common shares used to compute basic and diluted loss per share	12,087,947	11,721,232
Net loss attributable to common shareholders per share - Basic and Diluted	\$ (0.60)	\$ (0.59)

All unvested restricted stock units ("RSUs"), the 200,000 warrants granted to Opus Bank ("Opus") and the 153,489 warrants granted to Silicon Valley Bank ("SVB") have been excluded from the above calculations as they were anti-dilutive. Vested RSUs and vested restricted shares have been included in the above calculations.

## 8. DEBT

**SVB** — During October 2017, the Company opened a revolving line of credit from SVB under a three-year agreement which replaced the previous credit facility from Opus. The SVB credit facility is a secured revolving line of credit where borrowings are based on a formula of 200% of repeatable revenue adjusted by an annualized attrition rate as defined in the credit agreement. During the third quarter of 2018, the credit line was increased from \$5 million to \$10 million and the term was extended for an additional year. As of December 31, 2019, and 2018, there were no borrowings under the credit facility. Interest on the SVB revolving line of credit is currently charged at the prime rate plus 1.50%. There is also a fee of one-half of 1% annually for the unused portion of the credit line. The debt is secured by all of the Company's domestic assets and 65% of the shares in its offshore subsidiaries. Future acquisitions are subject to approval by SVB.

In connection with the original SVB debt agreement, the Company paid SVB approximately \$50,000 of fees upfront and issued warrants for SVB to purchase 125,000 shares of its common stock, and committed to pay an annual anniversary fee of \$50,000 a year. Based on the terms in the original SVB credit agreement, these warrants have a strike price equal to \$3.92. They have a five-year exercise window and net exercise rights, and were valued at \$3.12 per warrant. As a result of the revision in the SVB credit line, which increased the credit line from \$5 million to \$10 million and reduced the interest rate by 25 basis points, the Company paid approximately \$50,000 of fees upfront and issued an additional 28,489 warrants, with a strike price equal to \$5.26, a five-year exercise window and net exercise rights. The additional warrants were valued at \$3.58 per warrant. The SVB credit agreement contains various covenants and conditions governing the revolving line of credit. These covenants include a minimum level of adjusted EBITDA and a minimum liquidity ratio. At December 31, 2019 and 2018, the Company was in compliance with all covenants.

During November 2019 the Company modified its loan agreement with SVB, which adjusted the required monthly EBITDA amounts and does not require the Company to comply with financial covenants as long as there have been no borrowings on the revolving credit line for the prior six months.

**Vehicle Financing Notes** — The Company financed certain vehicle purchases both in the United States and in Pakistan. The vehicle financing notes have three to six year terms and were issued at current market rates.

**Insurance Financing** — The Company finances certain insurance purchases over the term of the policy life. The interest rate charged is 4.52%.

**Payable to Managed Practices** — As a result of the Orion acquisition, the Company assumed a payable to the managed practices at that time of \$236,000, which is non-interest bearing. As of December 31, 2019, the balance was \$110,000.

Maturities of the outstanding notes payable and other obligations as of December 31, 2019 are as follows:

Year ending December 31	Vehicle Financing Notes	Insurance Financing	Payable to Managed Practices	Total
2020	\$ 67,129	\$ 132,546	\$ 84,000	\$ 283,675
2021	37,410	-	26,000	63,410
2022	15,171	-	-	15,171
2023	4,694	-	-	4,694
Total	\$ 124,404	\$ 132,546	\$ 110,000	\$ 366,950

## 9. REVENUE

### *Introduction*

The Company accounts for revenue in accordance with ASC 606, *Revenue from Contracts with Customers*, which was adopted January 1, 2018 using the modified retrospective method. All revenue is recognized as our performance obligations are satisfied. A performance obligation is a promise in a contract to transfer a distinct good or service to a customer, and is the unit of account under ASC 606. Under the new standard, the Company recognizes revenue when the revenue cycle management services begin on the medical billing claims, which is generally upon receipt of the claim from the provider. For revenue cycle management services, the Company estimates the value of the consideration it will earn over the remaining contractual period as our services are provided and recognizes the fees over the term; this estimation involves predicting the amounts our clients will ultimately collect associated with the services they provided. Certain significant estimates, such as payment-to-charge ratios, effective billing rates and the estimated contractual payment periods are required to measure revenue cycle management revenue under the new standard. The timing of the revenue recognition of our other revenue streams were not materially impacted by the adoption of ASC 606.

Most of our current contracts with customers contain a single performance obligation. For contracts where we provide multiple services, such as where we perform multiple ancillary services, each service represents its own performance obligation. Selling prices are based on the contractual price for the service.

We apply the portfolio approach as permitted by ASC 606 as a practical expedient to contracts with similar characteristics and we use estimates and assumptions when accounting for those portfolios. Our contracts generally include standard commercial payment terms. We have no significant obligations for refunds, warranties or similar obligations and our revenue does not include taxes collected from our customers.

### *Disaggregation of Revenue from Contracts with Customers*

We derive revenue from seven primary sources: revenue cycle management services, practice management services, professional services, ancillary services, group purchasing services, printing and mailing services, and clearinghouse and EDI (electronic data interchange) services.

The following table represents a disaggregation of revenue for the years ended December 31, 2019 and 2018:

	<b>Year Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Healthcare IT:</b>		
Revenue cycle management services	\$ 42,919,944	\$ 38,559,180
Professional services	1,769,129	1,244,894
Ancillary services	3,220,372	1,594,364
Group purchasing services	1,020,031	654,805
Printing and mailing services	1,650,069	1,344,011
Clearinghouse and EDI services	591,963	647,446
<b>Practice Management:</b>		
Practice management services	13,267,086	6,501,081
<b>Total</b>	<b>\$ 64,438,594</b>	<b>\$ 50,545,781</b>

*Revenue cycle management services:*

Revenue cycle management services are the recurring process of submitting and following up on claims with health insurance companies in order for the healthcare providers to receive payment for the services they rendered. MTBC typically invoices customers on a monthly basis based on the actual collections received by its customers and the agreed-upon rate in the sales contract. The services include use of practice management software and related tools (on a software-as-a-service ("SaaS") basis), electronic health records (on a SaaS basis), medical billing services and use of mobile health solutions. We consider the services to be one performance obligation since the promises are not distinct in the context of the contract. The performance obligation consists of a series of distinct services that are substantially the same and have the same periodic pattern of transfer to our customers.

In many cases, our clients may terminate their agreements with 90 days' notice without cause, thereby limiting the term in which we have enforceable rights and obligations, although this time period can vary between clients. Our payment terms are normally net 30 days. Although our contracts typically have stated terms of one or more years, under ASC 606 our contracts are considered month-to-month and accordingly, there is no financing component.

For the majority of our revenue cycle management contracts, the total transaction price is variable because our obligation is to process an unknown quantity of claims, as and when requested by our customers over the contract period. When a contract includes variable consideration, we evaluate the estimate of the variable consideration to determine whether the estimate needs to be constrained; therefore, we include variable consideration in the transaction price only to the extent that it is probable that a significant reversal of the amount of cumulative revenue recognized will not occur when the uncertainty associated with variable consideration is subsequently resolved. Estimates to determine variable consideration such as payment to charge ratios, effective billing rates, and the estimated contractual payment periods are updated at each reporting date. Revenue is recognized over the performance period using the input method.

*Other revenue streams:*

MTBC also provides implementation and professional services to clearinghouse and other customers and records revenue monthly on a time and materials or a fixed rate basis. This is a separate performance obligation from the clearinghouse and recurring EDI services provided, for which the Company receives and records monthly fees. The performance obligation is satisfied over time as the implementation or professional services are rendered.

Ancillary services represent services such as coding and transcription that are rendered in connection with the delivery of revenue cycle management and related medical services. The Company invoices customers monthly, based on the actual amount of services performed at the agreed upon rate in the contract. These services are only offered to revenue cycle management customers. These services do not represent a material right because the services are optional to the customer and customers electing these services are charged the same price for those services as if they were on a standalone basis. Each individual coding or transcription transaction processed represents a performance obligation, which is satisfied over time as that individual service is rendered.

The Company provides group purchasing services which enable medical providers to purchase various vaccines directly from selected pharmaceutical companies at a discounted price. Currently, there are approximately 4,056 medical providers who are members of the program. Revenue is recognized as the vaccine shipments are made to the medical providers. Fees from the pharmaceutical companies are paid either quarterly or annually and the Company adjusts its revenue accrual at the time of payment. The Company makes significant judgments regarding the variable consideration which we expect to be entitled to for the group purchasing services which includes the anticipated shipments to the members enrolled in the program, anticipated volumes of purchases made by the members, and the changes in the number of members. The amounts recorded are constrained by estimates of decreases in shipments and loss of members to avoid a significant revenue reversal in the subsequent period. The only performance obligation is to provide the pharmaceutical companies with the medical providers who want to become members in order to purchase vaccines. The performance obligation is satisfied once the medical provider agrees to purchase a specific quantity of vaccines and the medical provider's information is forwarded to the vaccine suppliers. The Company records a contract asset for revenue earned and not paid as the ultimate payment is conditioned on achieving certain volume thresholds.

The Company provides printing and mailing services for both revenue cycle management customers and a non-revenue cycle management customer, and invoices on a monthly basis based on the number of prints, the agreed-upon rate per print and the postage incurred. The performance obligation is satisfied once the printing and mailing is completed.

The medical billing clearinghouse service takes claim information from customers, checks the claims for errors and sends this information electronically to insurance companies. MTBC invoices customers on a monthly basis based on the number of claims submitted and the agreed-upon rate in the agreement. This service is provided to medical practices and providers to medical practices who are not revenue cycle management customers. The performance obligation is satisfied once the relevant submissions are completed.

For all of the above revenue streams other than group purchasing services, revenue is recognized over time, which is typically one month or less, which closely matches the point in time that the customer simultaneously receives and consumes the benefits provided by the Company. For the group purchasing services, revenue is recognized at a point in time. Each service is substantially the same and has the same periodic pattern of transfer to the customer. Each of the services provided above is considered a separate performance obligation.

*Practice management services:*

The Company also provides practice management services under long-term management service agreements to three medical practices. We provide the medical practices with the nurses, administrative support, facilities, supplies, equipment, marketing, RCM, accounting, and other non-clinical services needed to efficiently operate their practices. Revenue is recognized as the services are provided to the medical practices. Revenue recorded in the consolidated statements of operations represents the reimbursement of costs paid by the Company for the practices and the management fee earned each month for managing the practice. The management fee is based on either a fixed fee or a percentage of the net operating income.

The Company assumes all financial risk for the performance of the managed medical practices. Revenue is impacted by amount of the costs incurred by the practices and their operating income. The gross billing of the practices is impacted by billing rates, changes in current procedural terminology code reimbursement and collection trends which in turn impacts the management fee that the Company is entitled to. Billing rates are reviewed at least annually and adjusted based on current insurer reimbursement practices. The performance obligation is satisfied as the management services are provided.

Our contracts for practice management services have approximately an additional 20 years remaining and are only cancellable under very limited circumstances. The Company receives a management fee each month for managing the day-to-day business operations of each medical group as a fixed fee or a percentage payment of the net operating income which is included in revenue in the consolidated statements of operations.

Our practice management services obligations consist of a series of distinct services that are substantially the same and have the same periodic pattern of transfer to our customers. Revenue is recognized over time, however for reporting and convenience purposes management fee is computed at each month end.

*Information about contract balances:*

As of December 31, 2019, the estimated revenue expected to be recognized in the future related to the remaining revenue cycle management performance obligations outstanding was approximately \$2.0 million. We expect to recognize substantially all of the revenue for the remaining performance obligations over the next three months. Approximately \$374,000 of the contract asset represents revenue earned, not paid, from the group purchasing services.

Amounts that we are entitled to collect under the applicable contract are recorded as accounts receivable. Invoicing is performed at the end of each month when the services have been provided. The contract asset includes our right to payment for services already transferred to a customer when the right to payment is conditional on something other than the passage of time. For example, contracts for revenue cycle management services where we recognize revenue over time but do not have a contractual right to payment until the customer receives payment of their claim from the insurance provider. The contract asset also includes the revenue accrued, not received, for the group purchasing services.

Changes in the contract asset are recorded as adjustments to net revenue. The changes primarily result from providing services to revenue cycle management customers that result in additional consideration and are offset by our right to payment for services becoming unconditional and changes in the revenue accrued for the group purchasing services. The contract asset for our group purchasing services is reduced when we receive payments from vaccine manufacturers and is increased for revenue earned, not received. The opening and closing balances of the Company's accounts receivable, contract asset and deferred revenue are as follows:

	<b>Accounts Receivable, Net</b>	<b>Contract Asset</b>	<b>Deferred Revenue (current)</b>	<b>Deferred Revenue (long term)</b>
Balance as of January 1, 2018	\$ 3,879,463	\$ 1,342,692	\$ 62,104	\$ 28,615
Orion acquisition	5,654,919	861,341	-	-
(Decrease) increase, net	(2,202,908)	404,598	(36,749)	(9,666)
Balance as of December 31, 2018	<u>\$ 7,331,474</u>	<u>\$ 2,608,631</u>	<u>\$ 25,355</u>	<u>\$ 18,949</u>
Balance as of January 1, 2019	\$ 7,331,474	\$ 2,608,631	\$ 25,355	\$ 18,949
ETM acquisition	-	139,169	-	-
Decrease, net	(336,131)	(362,466)	(5,078)	(204)
Balance as of December 31, 2019	<u>\$ 6,995,343</u>	<u>\$ 2,385,334</u>	<u>\$ 20,277</u>	<u>\$ 18,745</u>

*Deferred commissions:*

Our sales incentive plans include commissions payable to employees and third parties at the time of initial contract execution that are capitalized as incremental costs to obtain a contract. The capitalized commissions are amortized over the period the related services are transferred. As we do not offer commissions on contract renewals, we have determined the amortization period to be the estimated client life, which is three years. Deferred commissions were approximately \$29,000 and \$93,000 at December 31, 2019 and 2018, respectively, and are included in the Other Assets lines in the consolidated balance sheets.

## 10. SHAREHOLDERS' EQUITY

Treasury stock

The Board of Directors of the Company previously approved stock repurchase programs. The last program expired January 25, 2017. As a result of these stock repurchases, the Company has 740,799 shares held as treasury stock at an aggregate cost of \$662,000.

#### Common stock

There were no common stock offerings during 2019 and 2018.

Holders of our common stock are entitled to one vote for each share held on all matters properly submitted to a vote of shareholders on which holders of common stock are entitled to vote. Holders of common stocks are entitled to receive dividends only at times and amounts as determined by the Board of Directors. The common stock is not entitled to pre-emptive rights, and is not subject to conversion, redemption or sinking fund provisions.

#### Preferred Stock

During the year ended December 31, 2019, the Company completed a public offering of 373,000 shares of its Preferred Stock at the prevailing market price, raising net proceeds of approximately \$9.6 million after underwriting commissions and other directly attributable expenses.

During the year ended December 31, 2018, the Company completed two public offerings of approximately one million shares of its Preferred Stock at \$25.00 per share, raising net proceeds of approximately \$22.8 million after underwriting commissions and expenses.

Dividends on the Preferred Stock of \$2.75 annually per share are cumulative from the date of issue and are payable each month when, as and if declared by the Company's Board of Directors. As of December 31, 2019, the Board of Directors has declared monthly dividends on the Preferred Stock payable through February 2020.

Commencing on or after November 4, 2020, the Company may redeem, at its option, the Preferred Stock, in whole or in part, at a cash redemption price of \$25.00 per share, plus all accrued and unpaid dividends to, but not including, the redemption date. The Preferred Stock has no stated maturity, is not subject to any sinking fund or other mandatory redemption, and is not convertible into or exchangeable for any of the Company's other securities. Holders of the Preferred Stock have no voting rights except for limited voting rights if dividends payable on the Preferred Stock are in arrears for eighteen or more consecutive or non-consecutive monthly dividend periods. If the Company were to liquidate, dissolve or wind up, the holders of the Preferred Stock will have the right to receive \$25.00 per share, plus any accumulated and unpaid dividends to, but not including, the date of payment, before any payment is made to the holders of the common stock. The Preferred Stock is listed on the Nasdaq Global Market under the trading symbol "MTBCP."

#### Warrants

The Company has issued 2,353,489 warrants for its common stock, of which 353,489 remained outstanding at December 31, 2018. The 2,000,000 warrants previously issued at a \$5 exercise price expired in May 2018. The outstanding warrants consist of 100,000 warrants at a \$5 exercise price which will expire in September, 2022, 125,000 warrants at a \$3.92 exercise price which will expire in October 2022, 100,000 warrants at a \$5 exercise price which will expire in July 2023 and 28,489 warrants at a \$5.26 exercise price which will expire in September 2023.

### **11. COMMITMENTS AND CONTINGENCIES**

**Legal Proceedings** — On April 4, 2017, Randolph Pain Relief and Wellness Center ("RPRWC") filed an arbitration demand with the American Arbitration Association (the "Arbitration") seeking to arbitrate claims against MTBC, Inc. ("MTBC") and MTBC Acquisition Corp. ("MAC"). The claims relate solely to services provided by Millennium Practice Management Associates, Inc. ("MPMA"), a subsidiary of MediGain, LLC, pursuant to a billing services agreement that contains an arbitration provision. MTBC and MAC jointly moved in the Superior Court of New Jersey, Chancery Division, Somerset County (the "Chancery Court") to enjoin the Arbitration on the grounds that neither were a party to the billing services agreement. On May 30, 2018, the Chancery Court denied that motion and MTBC and MAC appealed. The Chancery Court ordered the Arbitration stayed pending the appeal.

On April 23, 2019, the Appellate Division reversed the Chancery Court's ruling that MTBC is required to participate in the Arbitration and remanded the case for further proceedings before the Chancery Court on that issue. The Appellate Division upheld the Chancery Court's ruling that MAC was required to participate in the Arbitration. The parties have completed discovery in the remanded matter, and both MTBC and RPRWC filed cross-motions for summary judgement in their favor. On February 6, 2020, the Chancery Court denied RPRWC's motion for summary judgment and granted MTBC's cross-motion for summary judgment. The Chancery Court held that MTBC cannot be compelled to participate in the Arbitration. RPRWC has informed MTBC that it does not intend to appeal the Chancery Court's ruling and that it intends to move forward solely against MAC in the Arbitration.

RPRWC seeks compensatory damages of \$6.6 million, plus costs, for MPMA's alleged breach of the billing services agreement. RPRWC's breach of contract and compensatory damages claims have not been the subject of the ongoing court proceedings, which have focused solely on whether RPRWC can compel MTBC and MAC to arbitrate its claim. Thus, RPRWC has not yet provided MAC with information sufficient to enable it to estimate a range of possible losses that may arise from the Arbitration. MAC intends to vigorously defend against RPRWC's claims. If RPRWC is successful in the Arbitration, MAC anticipates the award would be substantially less than the amount claimed.

From time to time, we may become involved in other legal proceedings arising in the ordinary course of our business. Including the proceeding described above, we are not presently a party to any legal proceedings that, in the opinion of our management, would individually or taken together have a material adverse effect on our business, consolidated results of operations, financial position or cash flows of the Company.

## **12. LEASES**

We determine if an arrangement is a lease at inception. Operating leases are included in operating lease ROU assets, current operating lease liability and non-current operating lease liability in our consolidated balance sheet as of December 31, 2019. The Company does not have any finance leases.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

We use our estimated incremental borrowing rates, which are derived from information available at the lease commencement date, in determining the present value of lease payments. For leases in existence at the adoption of ASC 842, we used the incremental borrowing rate as of January 1, 2019. We give consideration to our bank financing arrangements, geographical location and collateralization of assets when calculating our incremental borrowing rates.

Our lease terms include options to extend the lease when it is reasonably certain that we will exercise that option. Leases with a term of less than 12 months are not recorded in the consolidated balance sheet. Our lease agreements do not contain any residual value guarantees. For real estate leases, we account for the lease and non-lease components as a single lease component. Some leases include escalation clauses and termination options that are factored in the determination of the lease payments when appropriate.

If a lease is modified after the effective date, the operating lease ROU asset and liability is re-measured using the current incremental borrowing rate. During the year ended December 31, 2019, a lease impairment of approximately \$170,000 was recorded since the Company is no longer using one of its leased facilities and is currently in the process of subleasing the space. Restructuring charges of approximately \$49,000 were recorded in the year ended December 31, 2019 which represent the remaining lease costs for another leased facility that was closed and the employees were transferred to another Company facility.

We lease all of our facilities and some equipment. Lease expense is included in direct operating costs and general and administrative expenses in the consolidated statements of operations based on the nature of the expense. As of December 31, 2019, we had 29 leased properties, five in Practice Management and 24 in Healthcare IT, with remaining terms ranging from less than one year to four years. Our lease terms are determined taking into account lease renewal options, the Company's anticipated operating plans and leases that are on a month-to-month basis. We also have some related party leases – see Note 13.

The components of lease expense were as follows:

	<b>Year Ended December 31, 2019</b>
Operating lease cost	\$ 2,184,880
Short-term lease cost	229,263
Variable lease cost	41,714
<b>Total- net lease cost</b>	<b>\$ 2,455,857</b>

Short-term lease cost represents leases that were not capitalized as the lease term as of the later of January 1, 2019 or the beginning of the lease was less than 12 months. Variable lease costs include utilities, real estate taxes and common area maintenance costs.

Supplemental balance sheet information related to leases was as follows:

	<b>December 31, 2019</b>
<b>Operating leases:</b>	
Operating lease ROU assets, net	\$ 3,526,315
Current operating lease liabilities	\$ 1,688,772
Non-current operating lease liabilities	<u>2,040,772</u>
<b>Total operating lease liabilities</b>	<b>\$ 3,729,544</b>
 <b>Operating leases:</b>	
ROU assets	\$ 5,467,749
Asset lease expense	(1,888,443)
Foreign exchange loss	(52,991)
ROU assets, net	<u>\$ 3,526,315</u>
 <b>Weighted average remaining lease term (in years):</b>	
Operating leases	2.46
 <b>Weighted average discount rate:</b>	
Operating leases	7.05%

Supplemental cash flow and other information related to leases was as follows:

	<b>Year Ended December 31, 2019</b>
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>	
Operating cash flows from operating leases	\$ 2,332,167
 <b>ROU assets obtained in exchange for lease liabilities:</b>	
Operating leases, net of restructuring, impairment and terminations	\$ 1,221,989

Maturities of lease liabilities are as follows:

<b>Operating leases - Year ended December 31,</b>	
2020	\$ 1,887,651
2021	1,382,639
2022	624,528
2023	154,492
2024	4,694
Total lease payments	4,054,004
Less: imputed interest	(324,460)
Total lease obligations	3,729,544
Less: current obligations	1,688,772
Long-term lease obligations	\$ 2,040,772

As of December 31, 2019, we have one operating lease commitment with a six year term that commences on January 1, 2020 aggregating approximately \$1.0 million.

For comparative periods prior to the adoption of the new accounting guidance on January 1, 2019, we have retained the following disclosures as previously reported. Future minimum lease payments under non-cancelable operating leases as of December 31, 2018 were as follows:

<b>Operating leases</b>	
2019	\$ 932,068
2020	715,059
2021	510,927
2022	412,585
2023	91,797
Total	\$ 2,662,436

### **13. RELATED PARTIES**

The Company had sales to a related party, a physician who is the wife of the Executive Chairman. Revenues from this customer were approximately \$21,000 for the year ended December 31, 2019 and approximately \$20,000 for the year ended December 31, 2018. As of December 31, 2019 and 2018, the accounts receivable balance due from this customer was approximately \$2,000 and \$1,600, respectively and is included in accounts receivable in the consolidated balance sheets.

The Company is a party to a nonexclusive aircraft dry lease agreement with Kashmir Air, Inc. ("KAI"), which is owned by the Executive Chairman. The Company recorded expense of approximately \$137,000 and \$128,000, for the years ended December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, the Company had liabilities outstanding to KAI of approximately \$1,000 and \$11,000, which are included in accrued liability to related party in the consolidated balance sheets. The original aircraft lease expired on March 31, 2019 and was not included in the ROU asset at January 1, 2019. A lease for a different aircraft at the same lease rate was entered into as of April 1, 2019 and has been included in the ROU asset and operating lease liability at December 31, 2019.

The Company leases its corporate offices in New Jersey, its temporary housing for its foreign visitors, an office/storage facility and its backup operations center in Bagh, Pakistan, from the Executive Chairman. The related party rent expense for the years ended December 31, 2019 and 2018 was approximately \$192,000 and \$187,000, respectively, and is included in direct operating costs and general and administrative expense in the consolidated statements of operations. During the year ended December 31, 2019, the Company spent approximately \$330,000 to upgrade two of the leased facilities. Current assets-related party in the consolidated balance sheets includes security deposits and prepaid rent related to the leases of the Company's corporate offices in the amount of \$13,000 and \$25,000 as December 31, 2019 and 2018, respectively.

Included in the ROU asset at December 31, 2019 is approximately \$566,000 applicable to the related party leases. Included in the current and non-current operating lease liability at December 31, 2019 is approximately \$275,000 and \$298,000, respectively, applicable to the related party leases.

#### **14. EMPLOYEE BENEFIT PLANS**

The Company has a qualified 401(k) plan covering all U.S. employees of MTBC, Inc. and MAC who have completed one month of service. The plan provides for matching contributions by the Company equal to 100% of the first 3% of qualified compensation, plus 50% of the next 2%. The Company also maintain a qualified 401(k) plan for MHI, MPM and MED employees who have completed one month of service. There is a discretionary match for MHI and MED employees equal to 50% of the first 3% of qualified compensation. There is no match for MPM employees. Employer contributions to the plans for the years ended December 31, 2019 and 2018 were approximately \$255,000 and \$161,000, respectively.

Additionally, the Company has a defined contribution retirement plan covering all employees located in Pakistan who have completed three months of service. The plan provides for monthly contributions by the Company which are the lower of 10% of qualified employees' basic monthly compensation or 2,500 Pakistani rupees. The Company's contributions for the years ended December 31, 2019 and 2018 were approximately \$245,000 and \$110,000, respectively.

The Company maintains a defined contribution retirement plan covering all employees in Sri Lanka. The employee and employer contribute 8% and 12%, respectively, of the employee's gross salary. The Company's contribution for the year ended December 31, 2019 and 2018 were approximately \$40,000 and \$56,000, respectively. The contributions are required to be deposited with the Employees' Provident Fund Organization, a government owned entity.

#### **15. STOCK-BASED COMPENSATION**

In April 2014, the Company adopted the Medical Transcription Billing, Corp. 2014 Equity Incentive Plan (the "2014 Plan"), reserving a total of 1,351,000 shares of common stock for grants to employees, officers, directors and consultants. During 2017, the 2014 Plan was amended whereby an additional 1,500,000 shares of common stock and 100,000 shares of Preferred Stock were added to the plan for future issuance. During 2018, an additional 200,000 shares of Preferred Stock was added to the plan for future issuance. The 2014 Plan was amended and restated on April 14, 2017 (the "Amended and Restated Equity Incentive Plan"). As of December 31, 2019, 401,738 shares of common stock and 133,654 shares of Preferred Stock are available for grant. Permissible awards include incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock, RSUs, performance stock and cash-settled awards and other stock-based awards in the discretion of the Compensation Committee of the Board of Directors including unrestricted stock grants.

The equity based RSUs contain a provision in which the units shall immediately vest and become converted into common shares at the rate of one common share per RSU, immediately after a change in control, as defined in the award agreement.

##### **Common stock**

During the third quarter of 2018, 68,000 RSUs of common stock were granted over two years equally to the four outside members of the Board of Directors with 25% of the shares vesting every six months. Also, during 2018, a total of 558,000 RSUs of common stock were granted to certain Company executive officers and employees which vest over the next three years, at six-month intervals. A total of 81,200 cash settled common stock RSUs were granted to employees in Pakistan and Sri Lanka.

During 2019, 108,000 RSUs of common stock were granted to employees and independent contractors to vest at different dates during the year 2020. In addition, 72,000 RSUs of common stock were granted over two years equally to the four outside members of the Board of Directors with 25% of the shares vesting every six months.

The following table summarizes the RSU and restricted stock transactions related to the common and Preferred Stock under the Amended and Restated Incentive Plan for the years ended December 31, 2019 and 2018:

	<b>Common Stock</b>	<b>Preferred Stock</b>
Outstanding and unvested shares at January 1, 2018	605,969	39,800
Granted	707,200	44,800
Vested	(340,066)	(39,800)
Forfeited	(43,756)	-
Outstanding and unvested shares at December 31, 2018	929,347	44,800
Granted	180,000	48,746
Vested	(624,315)	(49,546)
Forfeited	(33,948)	-
Outstanding and unvested shares at December 31, 2019	<b>451,084</b>	<b>44,000</b>

As of December 31, 2019, and 2018, there was approximately \$2.1 million and \$2.5 million, respectively, of total unrecognized compensation cost related to the common stock RSUs classified as equity that will be expensed through 2021. There was no unrecognized compensation cost related to the Preferred Stock RSUs.

Of the total outstanding and unvested common stock RSUs at December 31, 2019, 421,751 RSUs are classified as equity and 29,333 RSUs are classified as a liability. All of the Preferred Stock RSUs are classified as equity.

The following table summarizes the share activity during the years ended December 31, 2019 and 2018 and the amount of common and Preferred Shares available for grant at December 31, 2019:

	<b>Common Stock</b>	<b>Preferred Stock</b>
Shares available for grant at January 1, 2018	1,211,234	27,200
Additional shares available for grant	-	200,000
RSUs granted	(707,200)	(44,800)
RSUs forfeited	43,756	-
Shares available for grant at December 31, 2018	547,790	182,400
RSUs granted	(180,000)	(48,746)
RSUs forfeited	33,948	-
Shares available for grant at December 31, 2019	<b>401,738</b>	<b>133,654</b>

The liability for the cash-settled awards was approximately \$741,000 and \$118,000 at December 31, 2019 and 2018, respectively, and is included in accrued compensation in the consolidated balance sheets. During the years ended December 31, 2019 and 2018, approximately \$184,000 and \$39,000, respectively, was paid in connection with the cash-settled awards.

### Preferred Stock

In 2019 and 2018, the Compensation Committee approved executive bonuses to be paid in 44,000 and 40,000 shares respectively of Preferred Stock, with the final number of shares and the amount based on specified performance criteria being achieved during 2019 and 2018. In 2019, 4,746 shares of Preferred Stock were granted as performance bonuses and in lieu of sales commissions. In 2018, an additional Preferred Stock award of 4,800 shares was granted as a performance bonus to one employee. Stock-based compensation expense recorded during 2019 and 2018 for these awards was approximately \$1.3 million and \$1.2 million respectively, based on the fair value of the Preferred Shares on the grant date. During January 2020 and February 2019, the Compensation Committee determined that the financial objectives were attained and all of the shares were issued including the performance bonus shares.

### Stock-based compensation expense

The Company recognizes compensation expense on a straight-line basis over the total requisite service period for the entire award. For stock awards classified as equity the market price of our common stock or Preferred Stock on the date of grant is used in recording the fair value of the award. For stock awards classified as a liability, the earned amount is marked to market based on the end of period common stock price. The weighted average grant date fair value of the common stock price in connection with the RSUs classified as equity was \$4.87 and \$4.53 for the years ended December 31, 2019 and 2018, respectively. The weighted average grant date fair value of the Preferred Stock in connection with the RSUs was \$26.77 and \$25.00 for the years ended December 31, 2019 and 2018, respectively. The following table summarizes the components of stock-based compensation expense for the years ended December 31, 2019 and 2018:

**Stock-based compensation included in the consolidated statements of operations:**

	December 31,	
	2019	2018
Direct operating costs	\$ 196,956	\$ 88,195
General and administrative	2,735,178	2,352,850
Research and development	33,029	14,506
Selling and marketing	250,498	8,048
Total stock-based compensation expense	<u>\$ 3,215,661</u>	<u>\$ 2,463,599</u>

### **16. INCOME TAXES**

For the years ended December 31, 2019 and 2018, the Company estimated its income tax provision based upon the annual pre-tax loss. Although the Company is forecasting a return to profitability, it incurred cumulative losses which make realization of a deferred tax asset difficult to support in accordance with ASC 740. Accordingly, a valuation allowance has been recorded against all federal and state deferred tax assets as of December 31, 2019 and December 31, 2018, with the exception of a net deferred tax liability relating to the amortization of intangibles for tax purposes.

As of January 1, 2018, all adjusted foreign income amounts became taxable due to a change in U.S. tax law under the recent tax reform legislation discussed below. For state tax purposes, the Company's foreign earnings may be taxable depending on each individual state's legislative stance on the recent tax reform legislation. The activity in the deferred tax valuation allowance was as follows for the years ended December 31, 2019 and 2018:

	Year ended December 31,	
	2019	2018
Beginning balance	\$ 7,176,391	\$ 6,620,464
Provision	371,468	400,158
Adjustments/true-ups	(393,349)	155,769
Ending balance	<u>\$ 7,154,510</u>	<u>\$ 7,176,391</u>

The adjustments/true-ups for 2019 primarily represent the deferred tax effect of the Company's adoption of ASC 606. The adjustments/true-ups for 2018 primarily represent the use of federal net operating losses to offset the Transition Tax as defined below. Accordingly, additional valuation allowances needed to be provided. Since a full valuation allowance is recorded on the Company's deferred tax assets, there was no effect on the Company's consolidated balance sheet.

The loss before tax for financial reporting purposes during the years ended December 31, 2019 and 2018 consisted of the following:

	<b>Year ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
United States	\$ (1,154,831)	\$ (4,111,539)
Foreign	475,811	1,815,674
<b>Total</b>	<b>\$ (679,020)</b>	<b>\$ (2,295,865)</b>

The provision (benefit) for income taxes for the years ended December 31, 2019 and 2018 consisted of the following:

	<b>Year ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Current:		
Federal	\$ -	\$ -
State	102,677	49,000
Foreign	9,937	1,341
	<b>112,614</b>	<b>50,341</b>
Deferred:		
Federal	27,689	(225,347)
State	52,477	17,621
	<b>80,166</b>	<b>(207,726)</b>
<b>Total income tax provision (benefit)</b>	<b>\$ 192,780</b>	<b>\$ (157,385)</b>

The components of the Company's deferred income taxes as of December 31, 2019 and 2018 are as follows:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Deferred tax assets:		
Allowance for doubtful accounts	\$ 65,529	\$ 46,492
Deferred revenue	4,807	4,664
Deferred rent	-	4,275
Property and intangible assets	2,301,987	2,336,221
State net operating loss ("NOL") carryforwards	910,274	636,578
Federal net operating loss ("NOL") carryforwards	4,146,274	3,789,618
Section 163(j) interest limitation	13,499	51,319
Cumulative translation adjustment	216,255	349,834
Stock based compensation	118,377	335,785
ASC 606 - Section 481(A) adjustment	(185,162)	-
ASC 842-ROU asset	(790,446)	-
ASC 842 - Lease liability	799,376	-
Other	18,238	(24,654)
Valuation allowance	(7,154,510)	(7,176,391)
<b>Total deferred tax assets</b>	<b>464,498</b>	<b>353,741</b>
Deferred tax liabilities:		
Goodwill amortization	(709,010)	(518,087)
<b>Net deferred tax liability</b>	<b>\$ (244,512)</b>	<b>\$ (164,346)</b>

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax bases, as well as from net operating loss carryforwards. Deferred income tax assets represent amounts available to reduce income taxes payable on taxable income in future years.

The Company has recorded goodwill as a result of its acquisitions. Goodwill is generally not amortized for financial reporting purposes. For tax purposes, goodwill is tax deductible and amortized over 15 years. As such, deferred income tax expense and a deferred tax liability arise as a result of the tax-deductibility of this indefinitely lived asset (also known as a naked credit). The resulting deferred tax liability, which is expected to continue to increase over the amortization period, will have an indefinite life. As a result of the Company incurring a tax loss for 2018 which has an indefinite life under the recent tax reform legislation, the federal deferred tax liability resulting from the amortization of goodwill was offset against the 2019 federal operating net loss, to the extent allowable. This resulted in a deferred tax benefit of approximately \$208,000 in 2018. The remaining deferred tax liability could remain on the Company's consolidated balance sheet indefinitely unless there is an impairment of goodwill (for financial reporting purposes) or a portion of the business is sold.

Due to the fact that the aforementioned deferred tax liability could have an indefinite life, it is not netted against the Company's deferred tax assets when determining the required valuation allowance in accordance with ASC 740 guidelines. Doing so would result in the understatement of the valuation allowance and related deferred income tax expense.

A reconciliation of the federal statutory income tax rate (21%) for 2019 and 2018 to the Company's effective income tax rate (determined in dollars) for the years ended December 31, 2019 and 2018 is as follows:

	Year ended December 31,	
	2019	2018
Federal benefit at statutory rate	\$ (142,594)	\$ (482,132)
Increase (decrease) in income taxes resulting from:		
State tax expense, net of federal benefit	142,079	29,646
Non-deductible items	24,883	15,332
Impact of foreign operations	31,408	(525,583)
Subpart F GILTI inclusion	69,862	360,742
Deferred true-up	332,792	(142,869)
Valuation allowance	(304,009)	555,927
Additional tax goodwill/contingent consideration	38,359	31,553
Total income tax provision (benefit)	\$ 192,780	\$ (157,385)

At December 31, 2019 and 2018, the Company did not record any uncertain tax positions based on the technical merits. Therefore, a tabular roll forward was excluded and there has been no accrued interest and penalties. The Company is subject to taxation in the United States, various states, Pakistan and Sri Lanka. As of December 31, 2019, tax years 2016 through 2018 remain open to examination in the United States by major taxing jurisdictions in which the Company is subject to tax. The Pakistan Federal Board of Revenue issued a tax holiday, which precludes the Pakistan subsidiary from being subject to income taxes through June 2025. It is the Company's policy that any assessed penalties and interest on uncertain tax positions would be charged to income tax expense.

The Pakistan tax holiday does not have a significant impact on the Company's effective tax rate as all of its earnings in Pakistan have been fully included in the U.S. federal tax rate of 21% for 2019 and 2018. The Pakistan statutory corporate tax rate is 29% before consideration of the aforementioned tax holiday.

The Company has a federal NOL carry forward of approximately \$19.8 million of which approximately \$15.8 million will expire between 2034 and 2037 and \$4.0 million has an indefinite life. The Company has state NOL carry forwards which mainly consists of approximately \$38.5 million, of which \$17.9 million relates to the State of New Jersey. These NOLs expire between 2034 to 2039.

The Company has a full valuation allowance on its deferred tax assets in the U.S. which results in there being no U.S. deferred tax assets or liabilities recorded on the consolidated balances sheet. Other than the deferred tax liability related to the amortization of goodwill.

## 17. OTHER (EXPENSE) INCOME – NET

Other (expense) income - net for the years ended December 31, 2019 and 2018 consisted of the following:

	<b>Year Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Foreign exchange (loss) gain	\$ (827,121)	\$ 434,806
Other income	201,446	59,526
<b>Other (expense) income - net</b>	<b>\$ (625,675)</b>	<b>\$ 494,332</b>

Foreign currency transaction gains and losses primarily result from transactions in foreign currencies other than the functional currency. These transaction gains and losses are recorded in the consolidated statements of operations related to the recurring measurement and settlement of such transactions.

## 18. SEGMENT REPORTING

Both our Chief Executive Officer and Executive Chairman serve as the CODM, organize the Company, manage resource allocations and measure performance among two operating and reportable segments: (i) Healthcare IT and (ii) Practice Management.

The Healthcare IT segment includes revenue cycle management and other services. The Practice management segment includes the management of three medical practices. Each segment is considered a reporting unit. The CODM evaluates financial performance of the business units on the basis of revenue and direct operating costs excluding unallocated amounts, which are mainly corporate overhead costs. Our CODM does not evaluate operating segments using asset or liability information. The accounting policies of the segments are the same as those disclosed in the summary of significant accounting policies. The following tables present revenues, operating expenses and operating income (loss) by reportable segment for the years ended December 31, 2019 and 2018:

	<b>Year Ended December 31, 2019</b>			
			<b>Practice Management</b>	<b>Unallocated Corporate Expenses</b>
	<b>Healthcare IT</b>	<b>Total</b>		
Net revenue	\$ 51,171,508	\$ 13,267,086	\$ -	\$ 64,438,594
Operating expenses:				
Direct operating costs	30,798,404	10,387,620	-	41,186,024
Selling and marketing	1,487,196	34,619	-	1,521,815
General and administrative	11,124,271	2,066,522	4,721,004	17,911,797
Research and development	870,780	-	-	870,780
Change in contingent consideration	(343,768)	-	-	(343,768)
Depreciation and amortization	2,689,240	316,366	-	3,005,606
Restructuring and impairment charges	219,013	-	-	219,013
Total operating expenses	<u>46,845,136</u>	<u>12,805,127</u>	<u>4,721,004</u>	<u>64,371,267</u>
Operating income (loss)	\$ 4,326,372	\$ 461,959	\$ (4,721,004)	\$ 67,327

	Year Ended December 31, 2018			
	Healthcare IT	Practice Management	Unallocated Corporate Expenses	Total
Net revenue	\$ 44,044,700	\$ 6,501,081	\$ -	\$ 50,545,781
Operating expenses:				
Direct operating costs	26,289,770	4,962,765	-	31,252,535
Selling and marketing	1,593,052	18,930	-	1,611,982
General and administrative	9,834,749	1,164,505	5,265,219	16,264,473
Research and development	1,029,510	-	-	1,029,510
Change in contingent consideration	73,271	-	-	73,271
Depreciation and amortization	2,700,577	153,250	-	2,853,827
Total operating expenses	41,520,929	6,299,450	5,265,219	53,085,598
Operating income (loss)	\$ 2,523,771	\$ 201,631	\$ (5,265,219)	\$ (2,539,817)

## 19. FAIR VALUE OF FINANCIAL INSTRUMENTS

As of December 31, 2019, and December 31, 2018, the carrying amounts of accounts receivable, accounts payable and accrued expenses approximated their estimated fair values because of the short term nature of these financial instruments.

### Fair value measurements-Level 2

Our notes payable are carried at cost and approximate fair value since the interest rates being charged approximate market rates. As a result, the Company categorizes these borrowings as Level 2 in the fair value hierarchy.

### Contingent Consideration

The Company's contingent consideration of approximately \$526,000 as of December 31, 2018, is a Level 3 liability. The fair value of the contingent consideration at December 31, 2018 was primarily driven by changes in revenue estimates related to the acquisitions during 2015 and 2016, the passage of time and the associated discount rate. Due to the number of factors used to determine contingent consideration, it was not possible to determine a range of outcomes. During 2019, the contingent consideration liability was fully settled.

The following table provides a reconciliation of the beginning and ending balances for the contingent consideration measured at fair value using significant unobservable inputs (Level 3):

Fair Value Measurement at Reporting Date Using Significant Unobservable Inputs, Level 3		
Year Ended December 31,		
	2019	2018
Balance - January 1,	\$ 526,432	\$ 603,411
Change in fair value	(343,768)	73,271
Payments	(182,664)	(150,250)
Balance - December 31,	\$ -	\$ 526,432

## 20. SUBSEQUENT EVENT

On January 8, 2020, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with CareCloud Corporation, a Delaware corporation ("CareCloud"), MTBC Merger Sub, Inc., a Delaware corporation and wholly-owned subsidiary of the Company ("Merger Sub") and Runway Growth Credit Fund Inc. ("Runway"), solely in its capacity as a seller representative, pursuant to which Merger Sub merged with and into CareCloud (the "Merger"), with CareCloud surviving as a wholly-owned subsidiary of the Company. The Merger became effective simultaneously with the execution of the Merger Agreement. CareCloud was the surviving corporation of the Merger and became a wholly-owned subsidiary of the Company.

The total consideration for the Merger paid at closing was \$11.9 million in cash, the assumption of a working capital deficiency of approximately \$5.1 million and 760,000 shares of the Company's Preferred Stock. The Merger Agreement provides that if CareCloud's 2020 revenues exceed \$36 million, there will be an earn-out payment to the seller equal to such excess, up to \$3 million. Additional consideration included warrants to purchase 2,000,000 shares of the Company's common stock, 1,000,000 of which have an exercise price per share of \$7.50 and a term of two years, and the other 1,000,000 warrants have an exercise price per share of \$10.00 and a term of three years.

Of the Preferred Stock consideration, 160,000 shares will be held in escrow for up to 24 months, and an additional 100,000 shares will be held in escrow for up to 18 months, in both cases, to satisfy indemnification obligations of the seller for losses arising from certain specified contingent liabilities. Shares net of such losses will be released upon joint instruction of the Company and Runway in accordance with the applicable escrow terms.

The Company's Preferred Stock and warrants being issued as part of the Merger consideration were issued in a transaction exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"). The Company has agreed that, as soon as practicable after the completion of CareCloud's 2019 financial statements audit, the Company will register for resale under the Securities Act the Preferred Stock and the securities underlying the warrants.

THIS WARRANT AND THE SHARES ISSUABLE HEREUNDER HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE AND, EXCEPT AS SET FORTH IN SECTIONS 5.3 AND 5.4 BELOW, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED UNLESS AND UNTIL REGISTERED UNDER SAID ACT AND LAWS OR, IN THE OPINION OF LEGAL COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER, SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS EXEMPT FROM SUCH REGISTRATION.

#### WARRANT TO PURCHASE STOCK

**Company:** MTBC, Inc., a Delaware corporation

**Number of Shares:** 1,000,000, subject to adjustment

**Type/Series of Stock:** Common Stock, \$0.001 par value per share

**Warrant Price:** \$7.50 per share

**Issue Date:** January 8, 2020

**Expiration Date:** January 8, 2022

THIS WARRANT CERTIFIES THAT, for good and valuable consideration, Runway Growth Credit Fund Inc., a Maryland corporation (together with any successor or permitted assignee or transferee of this Warrant or of any shares issued upon exercise hereof, "**Holder**") is entitled to purchase the above-stated number of fully paid and non-assessable shares (the "**Shares**") of the above-stated Type/Series of Stock (the "**Class**") of the above-named company (the "**Company**") at a purchase price per Share equal to the Warrant Price (as defined below) all as set forth above and as adjusted pursuant to Section 2 of this Warrant, subject to the provisions and upon the terms and conditions set forth in this Warrant.

This Warrant is issued pursuant to an Agreement and Plan of Merger, dated as of January 8, 2020 (the " Merger Agreement"). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Merger Agreement.

A. Warrant Price. The purchase price per Share hereunder (the "Warrant Price") shall be \$7.50 per share.

#### SECTION 1. EXERCISE.

1.1 Method of Exercise. Holder may at any time and from time to time exercise this Warrant, in whole or in part, by delivering to the Company the original of this Warrant together with a duly executed Notice of Exercise in substantially the form attached hereto as Appendix 1 and a check, wire transfer of same-day funds (to an account designated by the Company), or other form of payment acceptable to the Company for the aggregate Warrant Price for the Shares being purchased.

1.2 Delivery of Certificate and New Warrant. Within a reasonable time after Holder exercises this Warrant in the manner set forth in Section 1.1 above, the Company shall deliver to Holder a certificate representing the Shares issued to Holder upon such exercise and, if this Warrant has not been fully exercised and has not expired, a new warrant of like tenor representing the Shares not so acquired.

1.3 Replacement of Warrant. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, on delivery of an indemnity agreement reasonably satisfactory in form, substance and amount to the Company or, in the case of mutilation, on surrender of this Warrant to the Company for cancellation, the Company shall, within a reasonable time, execute and deliver to Holder, in lieu of this Warrant, a new warrant of like tenor and amount.

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**1.4 Treatment of Warrant Upon Acquisition of Company.**

(a) **Acquisition.** For the purpose of this Warrant, “**Acquisition**” means any transaction or series of related transactions involving: (i) the sale, lease, exclusive license, or other disposition of all or substantially all of the assets of the Company; (ii) any merger or consolidation of the Company into or with another person or entity (other than a merger or consolidation effected exclusively to change the Company’s domicile), or any other corporate reorganization, in which the stockholders of the Company in their capacity as such immediately prior to such merger, consolidation or reorganization, own less than a majority of the Company’s (or the surviving or successor entity’s) outstanding voting power immediately after such merger, consolidation or reorganization (or, if such Company stockholders beneficially own a majority of the outstanding voting power of the surviving or successor entity as of immediately after such merger, consolidation or reorganization, such surviving or successor entity is not the Company); or (iii) any sale or other transfer by the stockholders of the Company of shares representing at least a majority of the Company’s then-total outstanding combined voting power.

(b) **Treatment of Warrant at Acquisition.** In the event of an Acquisition in which the consideration to be received by the Company’s stockholders consists solely of cash, solely of Marketable Securities or a combination of cash and Marketable Securities (a “**Cash/Public Acquisition**”), and the fair market value of one Share would be greater than the Warrant Price in effect on such date immediately prior to such Cash/Public Acquisition, and Holder has not exercised this Warrant pursuant to Section 1.1 above as to all Shares, then Holder shall have the option to exercise this Warrant immediately prior to and contingent upon the consummation of a Cash/Public Acquisition, and upon such exercise, Holder shall be deemed to have restated each of the representations and warranties in Section 4 of the Warrant as of the date thereof. In the event of a Cash/Public Acquisition where the fair market value of one Share would be less than the Warrant Price in effect immediately prior to such Cash/Public Acquisition, then this Warrant will expire immediately prior to the consummation of such Cash/Public Acquisition.

(c) Upon the closing of any Acquisition other than a Cash/Public Acquisition, the acquiring, surviving or successor entity shall assume the obligations of this Warrant, and this Warrant shall thereafter be exercisable for the same securities and/or other property as would have been paid for the Shares issuable upon exercise of the unexercised portion of this Warrant as if such Shares were outstanding on and as of the closing of such Acquisition, subject to further adjustment from time to time in accordance with the provisions of this Warrant.

(d) As used in this Warrant, “**Marketable Securities**” means securities meeting all of the following requirements: (i) the issuer thereof is then subject to the reporting requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), and is then current in its filing of all required reports and other information under the Act and the Exchange Act; (ii) the class and series of shares or other security of the issuer that would be received by Holder in connection with the Acquisition were Holder to exercise this Warrant on or prior to the closing thereof is then traded in a Trading Market, and (iii) following the closing of such Acquisition, Holder would not be restricted from publicly re-selling all of the issuer’s shares and/or other securities that would be received by Holder in such Acquisition were Holder to exercise this Warrant in full on or prior to the closing of such Acquisition, except to the extent that any such restriction (x) arises solely under federal or state securities laws, rules or regulations, and (y) does not extend beyond six (6) months from the closing of such Acquisition.

## SECTION 2. ADJUSTMENTS TO THE SHARES AND WARRANT PRICE.

**2.1 Stock Dividends, Splits, Etc.** If the Company declares or pays a dividend or distribution on the outstanding shares of the Class payable in additional shares of the Class or other securities or property (other than cash), then upon exercise of this Warrant, for each Share acquired, Holder shall receive, without additional cost to Holder, the total number and kind of securities and property which Holder would have received had Holder owned the Shares of record as of the date the dividend or distribution occurred. If the Company subdivides the outstanding shares of the Class by reclassification or otherwise into a greater number of shares, the number of Shares purchasable hereunder shall be proportionately increased and the Warrant Price shall be proportionately decreased. If the outstanding shares of the Class are combined or consolidated, by reclassification or otherwise, into a lesser number of shares, the Warrant Price shall be proportionately increased and the number of Shares shall be proportionately decreased.

**2.2 Reclassification, Exchange, Combinations or Substitution.** Upon any event whereby all of the outstanding shares of the Class are reclassified, exchanged, combined, substituted, or replaced for, into, with or by Company securities of a different class and/or series, then from and after the consummation of such event, this Warrant will be exercisable for the number, class and series of Company securities that Holder would have received had the Shares been outstanding on and as of the consummation of such event, and subject to further adjustment thereafter from time to time in accordance with the provisions of this Warrant. The provisions of this Section 2.2 shall similarly apply to successive reclassifications, exchanges, combinations substitutions, replacements or other similar events.

**2.3 No Fractional Share.** No fractional Share shall be issuable upon exercise of this Warrant and the number of Shares to be issued shall be rounded down to the nearest whole Share. If a fractional Share interest arises upon any exercise of the Warrant, the Company shall eliminate such fractional Share interest by paying Holder in cash the amount computed by multiplying the fractional interest by (i) the fair market value of a full Share, less (ii) the then-effective Warrant Price.

**2.4 Notice/Certificate as to Adjustments.** Upon each adjustment of the Warrant Price, Class and/or number of Shares, the Company, at the Company's expense, shall notify Holder in writing within a reasonable time setting forth the adjustments to the Warrant Price, Class and/or number of Shares and facts upon which such adjustment is based. The Company shall, upon written request from Holder, furnish Holder with a certificate of its Chief Financial Officer, including computations of such adjustment and the Warrant Price, Class and number of Shares in effect upon the date of such adjustment.

## SECTION 3. REPRESENTATIONS AND COVENANTS OF THE COMPANY.

**3.1 Representations and Covenants.** The Company represents and warrants to, and agrees with, the Holder as follows:

(a) All Shares which may be issued upon the exercise of this Warrant shall, upon issuance, be duly authorized, validly issued, fully paid and non-assessable, and free of any liens and encumbrances except for restrictions on transfer provided for herein or under applicable federal and state securities laws.

(b) The Company covenants that it shall at all times cause to be reserved and kept available out of its authorized and unissued capital stock such number of shares of the Class and other securities as will be sufficient to permit the exercise in full of this Warrant.

**3.2 Notice of Certain Events.** If the Company proposes at any time to:

(a) declare any dividend or distribution upon the outstanding shares of the Class, whether in cash, property, stock, or other securities and whether or not a regular cash dividend;

(b) offer for subscription or sale pro rata to the holders of the outstanding shares of the Class any additional shares of any class or series of the Company's stock (other than pursuant to contractual pre-emptive rights);

(c) effect any reclassification, exchange, combination, substitution, reorganization or recapitalization of the outstanding shares of the Class; or

(d) effect an Acquisition or to liquidate, dissolve or wind up;

then, in connection with each such event, the Company shall give Holder notice thereof at the same time and in the same manner as given to holders of the outstanding shares of the Class.

**SECTION 4. REPRESENTATIONS, WARRANTIES OF THE HOLDER.**

The Holder represents and warrants to the Company as follows:

**4.1 Purchase for Own Account.** This Warrant and the Shares to be acquired upon exercise of this Warrant by Holder are being acquired for investment for Holder's account, not as a nominee or agent, and not with a view to the public resale or distribution within the meaning of the Securities Act. Holder also represents that it has not been formed for the specific purpose of acquiring this Warrant or the Shares.

**4.2 Disclosure of Information.** Holder is aware of the Company's business affairs and financial condition and has received or has had full access to all the information it considers necessary or appropriate to make an informed investment decision with respect to the acquisition of this Warrant and its underlying securities. Holder further has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of this Warrant and its underlying securities and to obtain additional information (to the extent the Company possessed such information or could acquire it without unreasonable effort or expense) necessary to verify any information furnished to Holder or to which Holder has access.

**4.3 Investment Experience.** Holder understands that the purchase of this Warrant and its underlying securities involves substantial risk. Holder has experience as an investor in securities of companies in the development stage and acknowledges that Holder can bear the economic risk of such Holder's investment in this Warrant and its underlying securities and has such knowledge and experience in financial or business matters that Holder is capable of evaluating the merits and risks of its investment in this Warrant and its underlying securities and/or has a preexisting personal or business relationship with the Company and certain of its officers, directors or controlling persons of a nature and duration that enables Holder to be aware of the character, business acumen and financial circumstances of such persons.

**4.4 Accredited Investor Status.** Holder is an “accredited investor” within the meaning of Regulation D promulgated under the Securities Act and has sufficient knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of this Warrant and the Shares issuable hereunder.

**4.5 Warrant Not Registered.** Holder understands that this Warrant has not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of the Holder’s investment intent as expressed herein.

**4.6 No Voting Rights.** This Warrant does not contain or give any voting rights to any Holder hereof.

#### SECTION 5. MISCELLANEOUS.

**5.1 Term.** Subject to the provisions of Section 1.4 above, this Warrant is exercisable in whole or in part at any time and from time to time on or before 6:00 PM, Pacific time, on the Expiration Date and shall be void thereafter.

**5.2 Legends.** Each certificate evidencing Shares shall be imprinted with a legend in substantially the following form:

THE SHARES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR THE SECURITIES LAWS OF ANY STATE AND, EXCEPT AS SET FORTH IN THAT CERTAIN WARRANT TO PURCHASE STOCK ISSUED BY THE ISSUER TO RUNWAY GROWTH CREDIT FUND INC. DATED JANUARY 8, 2020, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED UNLESS AND UNTIL REGISTERED UNDER SAID ACT AND LAWS OR, IN THE OPINION OF LEGAL COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER, SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS EXEMPT FROM SUCH REGISTRATION.

**5.3 Compliance with Securities Laws on Transfer.** This Warrant and the Shares issued upon exercise of this Warrant may not be transferred or assigned in whole or in part except in compliance with applicable federal and state securities laws by the transferor and the transferee (including, without limitation, the delivery of investment representation letters and legal opinions reasonably satisfactory to the Company, as reasonably requested by the Company). The Company shall not require Holder to provide an opinion of counsel if the transfer is to a parent company or any other affiliate of Holder, provided that any such transferee is an “accredited investor” as defined in Regulation D promulgated under the Securities Act.

**5.4 Transfer Procedure.** Subject to the provisions of Section 5.3 and upon providing the Company with written notice, Holder and any subsequent Holder may transfer all or part of this Warrant or the Shares issued upon exercise of this Warrant to any transferee, provided, however, in connection with any such transfer, any subsequent Holder will give the Company notice of the portion of the Warrant and/or Shares being transferred with the name, address and taxpayer identification number of the transferee and Holder will surrender this Warrant to the Company for reissuance to the transferee(s) (and Holder if applicable); and provided further, that any subsequent transferee shall agree in writing with the Company to be bound by all of the terms and conditions of this Warrant.

**5.5 Notices.** All notices and other communications hereunder from the Company to the Holder, or vice versa, shall be deemed delivered and effective (i) when given personally, (ii) on the third (3<sup>rd</sup>) Business Day after being mailed by first-class registered or certified mail, postage prepaid, (iii) upon actual receipt if given by facsimile or electronic mail and such receipt is confirmed in writing by the recipient, or (iv) on the first Business Day following delivery to a reliable overnight courier service, courier fee prepaid, in any case at such address as may have been furnished to the Company or Holder, as the case may be, in writing by the Company or such Holder from time to time in accordance with the provisions of this Section 5.5. All notices to Holder shall be addressed as follows until the Company receives notice of a change of address in connection with a transfer or otherwise:

Runway Growth Credit Fund Inc.  
205 N Michigan Ave., Suite 4200  
Chicago, IL 60601  
Attention: Legal Reporting  
Email: [legalreporting@runwaygrowth.com](mailto:legalreporting@runwaygrowth.com)  
[runwayagency@cortlandglobal.com](mailto:runwayagency@cortlandglobal.com)

Notice to the Company shall be addressed as follows until Holder receives notice of a change in address:

MTBC, Inc.  
Attn: General Counsel  
7 Clyde Road  
Somerset, NJ 08873  
Telephone: (732) 873-5133  
Email: spatel@mtbc.com

**5.6 Waiver.** This Warrant and any term hereof may be changed, waived, discharged or terminated (either generally or in a particular instance and either retroactively or prospectively) only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought.

**5.7 Counterparts; Facsimile/Electronic Signatures.** This Warrant may be executed in counterparts, all of which together shall constitute one and the same agreement. Any signature page delivered electronically or by facsimile shall be binding to the same extent as an original signature page with regards to any agreement subject to the terms hereof or any amendment thereto.

**5.8 Governing Law.** This Warrant shall be governed by and construed in accordance with the laws of the State of New Jersey, without giving effect to its principles regarding conflicts of law. The parties irrevocably agree that any action to enforce the provisions of this Agreement or arising under or by reason of this Agreement shall be brought solely in the Superior Court of New Jersey, Somerset County venue.

**5.9 Headings.** The headings in this Warrant are for purposes of reference only and shall not limit or otherwise affect the meaning of any provision of this Warrant.

**5.10 Business Days.** “**Business Day**” is any day that is not a Saturday, Sunday or a day on which banks in New York City are closed.

[Remainder of page left blank intentionally]  
[Signature page follows]

IN WITNESS WHEREOF, the parties have caused this Warrant to Purchase Stock to be executed by their duly authorized representatives effective as of the Issue Date written above.

"COMPANY"

MTBC, INC.

By: /s/ Shruti Patel  
Name: Shruti Patel  
Title: General Counsel

"HOLDER"

RUNWAY GROWTH CREDIT FUND INC.

By: /s/ David Spreng  
Name: David Spreng  
(Print)  
Title: CEO

APPENDIX 1

NOTICE OF EXERCISE

1. The undersigned Holder hereby exercises its right to purchase \_\_\_\_\_ shares of the Common Stock of \_\_\_\_\_ (the "Company") in accordance with the attached Warrant To Purchase Stock, and tenders payment of the aggregate Warrant Price for such shares as follows:

- [ ] check in the amount of \$\_\_\_\_\_ payable to order of the Company enclosed herewith  
[ ] Wire transfer of immediately available funds to the Company's account  
[ ] Other [Describe] \_\_\_\_\_

2. Please issue a certificate or certificates representing the Shares in the name specified below:

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Holder's Name

---

---

(Address)

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3. By its execution below and for the benefit of the Company, Holder hereby restates each of the representations and warranties in Section 4 of the Warrant to Purchase Stock as of the date hereof.

HOLDER:

---

By:

---

Name:

---

Title:

---

(Date):

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THIS WARRANT AND THE SHARES ISSUABLE HEREUNDER HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE AND, EXCEPT AS SET FORTH IN SECTIONS 5.3 AND 5.4 BELOW, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED UNLESS AND UNTIL REGISTERED UNDER SAID ACT AND LAWS OR, IN THE OPINION OF LEGAL COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER, SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS EXEMPT FROM SUCH REGISTRATION.

#### WARRANT TO PURCHASE STOCK

**Company:** MTBC, Inc., a Delaware corporation

**Number of Shares:** 1,000,000, subject to adjustment

**Type/Series of Stock:** Common Stock, \$0.001 par value per share

**Warrant Price:** \$10.00 per share

**Issue Date:** January 8, 2020

**Expiration Date:** January 8, 2023

THIS WARRANT CERTIFIES THAT, for good and valuable consideration, Runway Growth Credit Fund Inc., a Maryland corporation (together with any successor or permitted assignee or transferee of this Warrant or of any shares issued upon exercise hereof, "**Holder**") is entitled to purchase the above-stated number of fully paid and non-assessable shares (the "**Shares**") of the above-stated Type/Series of Stock (the "**Class**") of the above-named company (the "**Company**") at a purchase price per Share equal to the Warrant Price (as defined below) all as set forth above and as adjusted pursuant to Section 2 of this Warrant, subject to the provisions and upon the terms and conditions set forth in this Warrant.

This Warrant is issued pursuant to an Agreement and Plan of Merger, dated as of January 8, 2020 (the " **Merger Agreement**"). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Merger Agreement.

A. **Warrant Price.** The purchase price per Share hereunder (the "**Warrant Price**") shall be \$10.00 per share.

#### SECTION 1. EXERCISE

1.1 **Method of Exercise.** Holder may at any time and from time to time exercise this Warrant, in whole or in part, by delivering to the Company the original of this Warrant together with a duly executed Notice of Exercise in substantially the form attached hereto as Appendix 1 and a check, wire transfer of same-day funds (to an account designated by the Company), or other form of payment acceptable to the Company for the aggregate Warrant Price for the Shares being purchased.

1.2 **Delivery of Certificate and New Warrant.** Within a reasonable time after Holder exercises this Warrant in the manner set forth in Section 1.1 above, the Company shall deliver to Holder a certificate representing the Shares issued to Holder upon such exercise and, if this Warrant has not been fully exercised and has not expired, a new warrant of like tenor representing the Shares not so acquired.

1.3 **Replacement of Warrant.** On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, on delivery of an indemnity agreement reasonably satisfactory in form, substance and amount to the Company or, in the case of mutilation, on surrender of this Warrant to the Company for cancellation, the Company shall, within a reasonable time, execute and deliver to Holder, in lieu of this Warrant, a new warrant of like tenor and amount.

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**1.4 Treatment of Warrant Upon Acquisition of Company.**

(a) **Acquisition.** For the purpose of this Warrant, “**Acquisition**” means any transaction or series of related transactions involving: (i) the sale, lease, exclusive license, or other disposition of all or substantially all of the assets of the Company; (ii) any merger or consolidation of the Company into or with another person or entity (other than a merger or consolidation effected exclusively to change the Company’s domicile), or any other corporate reorganization, in which the stockholders of the Company in their capacity as such immediately prior to such merger, consolidation or reorganization, own less than a majority of the Company’s (or the surviving or successor entity’s) outstanding voting power immediately after such merger, consolidation or reorganization (or, if such Company stockholders beneficially own a majority of the outstanding voting power of the surviving or successor entity as of immediately after such merger, consolidation or reorganization, such surviving or successor entity is not the Company); or (iii) any sale or other transfer by the stockholders of the Company of shares representing at least a majority of the Company’s then-total outstanding combined voting power.

(b) **Treatment of Warrant at Acquisition.** In the event of an Acquisition in which the consideration to be received by the Company’s stockholders consists solely of cash, solely of Marketable Securities or a combination of cash and Marketable Securities (a “**Cash/Public Acquisition**”), and the fair market value of one Share would be greater than the Warrant Price in effect on such date immediately prior to such Cash/Public Acquisition, and Holder has not exercised this Warrant pursuant to Section 1.1 above as to all Shares, then Holder shall have the option to exercise this Warrant immediately prior to and contingent upon the consummation of a Cash/Public Acquisition, and upon such exercise, Holder shall be deemed to have restated each of the representations and warranties in Section 4 of the Warrant as of the date thereof. In the event of a Cash/Public Acquisition where the fair market value of one Share would be less than the Warrant Price in effect immediately prior to such Cash/Public Acquisition, then this Warrant will expire immediately prior to the consummation of such Cash/Public Acquisition.

(c) Upon the closing of any Acquisition other than a Cash/Public Acquisition, the acquiring, surviving or successor entity shall assume the obligations of this Warrant, and this Warrant shall thereafter be exercisable for the same securities and/or other property as would have been paid for the Shares issuable upon exercise of the unexercised portion of this Warrant as if such Shares were outstanding on and as of the closing of such Acquisition, subject to further adjustment from time to time in accordance with the provisions of this Warrant.

(d) As used in this Warrant, “**Marketable Securities**” means securities meeting all of the following requirements: (i) the issuer thereof is then subject to the reporting requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), and is then current in its filing of all required reports and other information under the Act and the Exchange Act; (ii) the class and series of shares or other security of the issuer that would be received by Holder in connection with the Acquisition were Holder to exercise this Warrant on or prior to the closing thereof is then traded in a Trading Market, and (iii) following the closing of such Acquisition, Holder would not be restricted from publicly re-selling all of the issuer’s shares and/or other securities that would be received by Holder in such Acquisition were Holder to exercise this Warrant in full on or prior to the closing of such Acquisition, except to the extent that any such restriction (x) arises solely under federal or state securities laws, rules or regulations, and (y) does not extend beyond six (6) months from the closing of such Acquisition.

## SECTION 2. ADJUSTMENTS TO THE SHARES AND WARRANT PRICE.

**2.1 Stock Dividends, Splits, Etc.** If the Company declares or pays a dividend or distribution on the outstanding shares of the Class payable in additional shares of the Class or other securities or property (other than cash), then upon exercise of this Warrant, for each Share acquired, Holder shall receive, without additional cost to Holder, the total number and kind of securities and property which Holder would have received had Holder owned the Shares of record as of the date the dividend or distribution occurred. If the Company subdivides the outstanding shares of the Class by reclassification or otherwise into a greater number of shares, the number of Shares purchasable hereunder shall be proportionately increased and the Warrant Price shall be proportionately decreased. If the outstanding shares of the Class are combined or consolidated, by reclassification or otherwise, into a lesser number of shares, the Warrant Price shall be proportionately increased and the number of Shares shall be proportionately decreased.

**2.2 Reclassification, Exchange, Combinations or Substitution.** Upon any event whereby all of the outstanding shares of the Class are reclassified, exchanged, combined, substituted, or replaced for, into, with or by Company securities of a different class and/or series, then from and after the consummation of such event, this Warrant will be exercisable for the number, class and series of Company securities that Holder would have received had the Shares been outstanding on and as of the consummation of such event, and subject to further adjustment thereafter from time to time in accordance with the provisions of this Warrant. The provisions of this Section 2.2 shall similarly apply to successive reclassifications, exchanges, combinations substitutions, replacements or other similar events.

**2.3 No Fractional Share.** No fractional Share shall be issuable upon exercise of this Warrant and the number of Shares to be issued shall be rounded down to the nearest whole Share. If a fractional Share interest arises upon any exercise of the Warrant, the Company shall eliminate such fractional Share interest by paying Holder in cash the amount computed by multiplying the fractional interest by (i) the fair market value of a full Share, less (ii) the then-effective Warrant Price.

**2.4 Notice/Certificate as to Adjustments.** Upon each adjustment of the Warrant Price, Class and/or number of Shares, the Company, at the Company's expense, shall notify Holder in writing within a reasonable time setting forth the adjustments to the Warrant Price, Class and/or number of Shares and facts upon which such adjustment is based. The Company shall, upon written request from Holder, furnish Holder with a certificate of its Chief Financial Officer, including computations of such adjustment and the Warrant Price, Class and number of Shares in effect upon the date of such adjustment.

## SECTION 3. REPRESENTATIONS AND COVENANTS OF THE COMPANY.

**3.1 Representations and Covenants.** The Company represents and warrants to, and agrees with, the Holder as follows:

(a) All Shares which may be issued upon the exercise of this Warrant shall, upon issuance, be duly authorized, validly issued, fully paid and non-assessable, and free of any liens and encumbrances except for restrictions on transfer provided for herein or under applicable federal and state securities laws.

(b) The Company covenants that it shall at all times cause to be reserved and kept available out of its authorized and unissued capital stock such number of shares of the Class and other securities as will be sufficient to permit the exercise in full of this Warrant.

**3.2 Notice of Certain Events.** If the Company proposes at any time to:

(a) declare any dividend or distribution upon the outstanding shares of the Class, whether in cash, property, stock, or other securities and whether or not a regular cash dividend;

(b) offer for subscription or sale pro rata to the holders of the outstanding shares of the Class any additional shares of any class or series of the Company's stock (other than pursuant to contractual pre-emptive rights);

(c) effect any reclassification, exchange, combination, substitution, reorganization or recapitalization of the outstanding shares of the Class; or

(d) effect an Acquisition or to liquidate, dissolve or wind up;

then, in connection with each such event, the Company shall give Holder notice thereof at the same time and in the same manner as given to holders of the outstanding shares of the Class.

**SECTION 4. REPRESENTATIONS, WARRANTIES OF THE HOLDER.**

The Holder represents and warrants to the Company as follows:

**4.1 Purchase for Own Account.** This Warrant and the Shares to be acquired upon exercise of this Warrant by Holder are being acquired for investment for Holder's account, not as a nominee or agent, and not with a view to the public resale or distribution within the meaning of the Securities Act. Holder also represents that it has not been formed for the specific purpose of acquiring this Warrant or the Shares.

**4.2 Disclosure of Information.** Holder is aware of the Company's business affairs and financial condition and has received or has had full access to all the information it considers necessary or appropriate to make an informed investment decision with respect to the acquisition of this Warrant and its underlying securities. Holder further has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of this Warrant and its underlying securities and to obtain additional information (to the extent the Company possessed such information or could acquire it without unreasonable effort or expense) necessary to verify any information furnished to Holder or to which Holder has access.

**4.3 Investment Experience.** Holder understands that the purchase of this Warrant and its underlying securities involves substantial risk. Holder has experience as an investor in securities of companies in the development stage and acknowledges that Holder can bear the economic risk of such Holder's investment in this Warrant and its underlying securities and has such knowledge and experience in financial or business matters that Holder is capable of evaluating the merits and risks of its investment in this Warrant and its underlying securities and/or has a preexisting personal or business relationship with the Company and certain of its officers, directors or controlling persons of a nature and duration that enables Holder to be aware of the character, business acumen and financial circumstances of such persons.

4.4 Accredited Investor Status. Holder is an “accredited investor” within the meaning of Regulation D promulgated under the Securities Act and has sufficient knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of this Warrant and the Shares issuable hereunder.

4.5 Warrant Not Registered. Holder understands that this Warrant has not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of the Holder’s investment intent as expressed herein.

4.6 No Voting Rights. This Warrant does not contain or give any voting rights to any Holder hereof.

#### SECTION 5. MISCELLANEOUS.

5.1 Term. Subject to the provisions of Section 1.4 above, this Warrant is exercisable in whole or in part at any time and from time to time on or before 6:00 PM, Pacific time, on the Expiration Date and shall be void thereafter.

5.2 Legends. Each certificate evidencing Shares shall be imprinted with a legend in substantially the following form:

THE SHARES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR THE SECURITIES LAWS OF ANY STATE AND, EXCEPT AS SET FORTH IN THAT CERTAIN WARRANT TO PURCHASE STOCK ISSUED BY THE ISSUER TO RUNWAY GROWTH CREDIT FUND INC. DATED JANUARY 8, 2020, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED UNLESS AND UNTIL REGISTERED UNDER SAID ACT AND LAWS OR, IN THE OPINION OF LEGAL COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER, SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS EXEMPT FROM SUCH REGISTRATION.

5.3 Compliance with Securities Laws on Transfer. This Warrant and the Shares issued upon exercise of this Warrant may not be transferred or assigned in whole or in part except in compliance with applicable federal and state securities laws by the transferor and the transferee (including, without limitation, the delivery of investment representation letters and legal opinions reasonably satisfactory to the Company, as reasonably requested by the Company). The Company shall not require Holder to provide an opinion of counsel if the transfer is to a parent company or any other affiliate of Holder, provided that any such transferee is an “accredited investor” as defined in Regulation D promulgated under the Securities Act.

5.4 Transfer Procedure. Subject to the provisions of Section 5.3 and upon providing the Company with written notice, Holder and any subsequent Holder may transfer all or part of this Warrant or the Shares issued upon exercise of this Warrant to any transferee, provided, however, in connection with any such transfer, any subsequent Holder will give the Company notice of the portion of the Warrant and/or Shares being transferred with the name, address and taxpayer identification number of the transferee and Holder will surrender this Warrant to the Company for reissuance to the transferee(s) (and Holder if applicable); and provided further, that any subsequent transferee shall agree in writing with the Company to be bound by all of the terms and conditions of this Warrant.

**5.5 Notices.** All notices and other communications hereunder from the Company to the Holder, or vice versa, shall be deemed delivered and effective (i) when given personally, (ii) on the third (3<sup>rd</sup>) Business Day after being mailed by first-class registered or certified mail, postage prepaid, (iii) upon actual receipt if given by facsimile or electronic mail and such receipt is confirmed in writing by the recipient, or (iv) on the first Business Day following delivery to a reliable overnight courier service, courier fee prepaid, in any case at such address as may have been furnished to the Company or Holder, as the case may be, in writing by the Company or such Holder from time to time in accordance with the provisions of this Section 5.5. All notices to Holder shall be addressed as follows until the Company receives notice of a change of address in connection with a transfer or otherwise:

Runway Growth Credit Fund Inc.  
205 N Michigan Ave., Suite 4200  
Chicago, IL 60601  
Attention: Legal Reporting  
Email: [legalreporting@runwaygrowth.com](mailto:legalreporting@runwaygrowth.com)  
[runwayagency@cortlandglobal.com](mailto:runwayagency@cortlandglobal.com)

Notice to the Company shall be addressed as follows until Holder receives notice of a change in address:

MTBC, Inc.  
Attn: General Counsel  
7 Clyde Road  
Somerset, NJ 08873  
Telephone: (732) 873-5133  
Email: spatel@mtbc.com

**5.6 Waiver.** This Warrant and any term hereof may be changed, waived, discharged or terminated (either generally or in a particular instance and either retroactively or prospectively) only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought.

**5.7 Counterparts; Facsimile/Electronic Signatures.** This Warrant may be executed in counterparts, all of which together shall constitute one and the same agreement. Any signature page delivered electronically or by facsimile shall be binding to the same extent as an original signature page with regards to any agreement subject to the terms hereof or any amendment thereto.

**5.8 Governing Law.** This Warrant shall be governed by and construed in accordance with the laws of the State of New Jersey, without giving effect to its principles regarding conflicts of law. The parties irrevocably agree that any action to enforce the provisions of this Agreement or arising under or by reason of this Agreement shall be brought solely in the Superior Court of New Jersey, Somerset County venue.

**5.9 Headings.** The headings in this Warrant are for purposes of reference only and shall not limit or otherwise affect the meaning of any provision of this Warrant.

**5.10 Business Days.** “**Business Day**” is any day that is not a Saturday, Sunday or a day on which banks in New York City are closed.

[Remainder of page left blank intentionally]  
[Signature page follows]

IN WITNESS WHEREOF, the parties have caused this Warrant to Purchase Stock to be executed by their duly authorized representatives effective as of the Issue Date written above.

"COMPANY"

MTBC, INC.

By: /s/ Shruti Patel  
Name: Shruti Patel  
Title: General Counsel

"HOLDER"

RUNWAY GROWTH CREDIT FUND INC.

By: /s/ David Spreng  
Name: David Spreng  
(Print)  
Title: CEO

APPENDIX 1

NOTICE OF EXERCISE

1. The undersigned Holder hereby exercises its right to purchase \_\_\_\_\_ shares of the Common Stock of \_\_\_\_\_ (the "Company") in accordance with the attached Warrant To Purchase Stock, and tenders payment of the aggregate Warrant Price for such shares as follows:

- [ ] check in the amount of \$\_\_\_\_\_ payable to order of the Company enclosed herewith
- [ ] Wire transfer of immediately available funds to the Company's account
- [ ] Other [Describe] \_\_\_\_\_

2. Please issue a certificate or certificates representing the Shares in the name specified below:

\_\_\_\_\_  
Holder's Name  
\_\_\_\_\_  
\_\_\_\_\_  
(Address)

3. By its execution below and for the benefit of the Company, Holder hereby restates each of the representations and warranties in Section 4 of the Warrant to Purchase Stock as of the date hereof.

HOLDER:

\_\_\_\_\_  
By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
(Date): \_\_\_\_\_

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**JOINDER AND THIRD LOAN MODIFICATION AGREEMENT**

This Joinder and Third Loan Modification Agreement (this "Agreement") is entered into as of February 28, 2020, by and among (a) **SILICON VALLEY BANK**, a California corporation, with its principal place of business at 3003 Tasman Drive, Santa Clara, California 95054 and with a loan production office located at 275 Grove Street, Suite 2-200, Newton, Massachusetts 02466 ("Bank"), (b) (i) **MTBC, INC.** (formerly known as **MEDICAL TRANSCRIPTION BILLING, CORP.**), a Delaware corporation with its principal place of business at 7 Clyde Road, Somerset, New Jersey 08873 ("Parent"), (ii) **MTBC ACQUISITION, CORP.**, a Delaware corporation with its principal place of business at 7 Clyde Road, Somerset, New Jersey 08873 ("Acquisition"), (iii) **MTBC HEALTH, INC.**, a Delaware corporation with its principal place of business at 7 Clyde Road, Somerset, New Jersey 08873 ("Health"), and (iv) **MTBC PRACTICE MANAGEMENT, CORP.**, a Delaware corporation with its principal place of business at 7 Clyde Road, Somerset, New Jersey 08873 ("Management" and, together with Parent, Acquisition, and Health, jointly and severally, individually and collectively, "Existing Borrower"), and (c) (i) **MTBC-MED, INC.**, a Delaware corporation with its principal place of business at 7 Clyde Road, Somerset, New Jersey 08873 ("MTBC-Med") and (ii) **CARECLOUD CORPORATION**, a Delaware corporation with its principal place of business at 7 Clyde Road, Somerset, New Jersey 08873 ("CareCloud", and, together with MTBC-Med jointly, severally, individually and collectively, "New Borrower", and New Borrower, together with Existing Borrower, jointly, severally, individually and collectively, "Borrower").

1. **DESCRIPTION OF EXISTING INDEBTEDNESS AND OBLIGATIONS.** Among other indebtedness and obligations which may be owing by Existing Borrower to Bank, Existing Borrower is indebted to Bank pursuant to a loan arrangement dated as of October 13, 2017, evidenced by, among other documents, a certain Loan and Security Agreement dated as of October 13, 2017, between Existing Borrower and Bank, as amended and affected by a certain Joinder and First Loan Modification Agreement dated as of September 20, 2018, and as further amended by a certain Second Loan Modification Agreement dated as of November 15, 2019 (as has been and as may be further amended, modified, restated, replaced or supplemented from time to time, the "Loan Agreement"). Capitalized terms used but not otherwise defined herein shall have the same meaning as in the Loan Agreement.

2. **JOINDER TO LOAN AGREEMENT.** New Borrower hereby joins the Loan Agreement and each of the Loan Documents, and agrees to comply with and be bound by all of the terms, conditions and covenants of the Loan Agreement and Loan Documents, as if it were originally named a "Borrower" therein. Without limiting the generality of the preceding sentence, New Borrower agrees that it will be jointly and severally liable, together with Existing Borrower, for the payment and performance of all obligations and liabilities of Borrower under the Loan Agreement, including, without limitation, the Obligations. Each Borrower hereby appoints each other Borrower as its agent for all purposes hereunder. Each Borrower hereunder shall be obligated to repay all Credit Extensions made pursuant to the Loan Agreement, regardless of which Borrower actually receives said Credit Extension, as if each Borrower hereunder directly received all Credit Extensions.

3. **SUBROGATION AND SIMILAR RIGHTS.** Each Borrower waives any suretyship defenses available to it under the Code or any other applicable law until all Obligations are indefeasibly paid in full (except for inchoate indemnification obligations). Each Borrower waives any right to require Bank to: (i) proceed against any other Borrower or any other person; (ii) proceed against or exhaust any security; or (iii) pursue any other remedy. Bank may exercise or not exercise any right or remedy it has against any Borrower or any security it holds (including the right to foreclose by judicial or non-judicial sale) without affecting any Borrower's liability. Notwithstanding any other provision of this Agreement, the Loan Agreement or other Loan Documents, each Borrower irrevocably fully subordinates and defers, until all Obligations are indefeasibly paid in full (except for inchoate indemnification obligations) all rights that it may have at law or in equity (including, without limitation, any law subrogating Borrower to the rights of Bank under the Loan Agreement) to seek contribution, indemnification or any other form of reimbursement from any other Borrower, or any other Person now or hereafter primarily or secondarily liable for any of the Obligations, for any payment made by Borrower with respect to the Obligations in connection with the Loan Agreement or otherwise and all rights that it might have to benefit from, or to participate in, any security for the Obligations as a result of any payment made by Borrower with respect to the Obligations in connection with the Loan Agreement or otherwise. Any agreement providing for indemnification, reimbursement or any other arrangement prohibited under this Section 3 shall be null and void. If any payment is made to a Borrower in contravention of this Section 3, such Borrower shall hold such payment in trust for Bank and such payment shall be promptly delivered to Bank for application to the Obligations, whether matured or unmatured.

**4. GRANT OF SECURITY INTEREST.** To secure the prompt payment and performance of all of the Obligations, New Borrower hereby grants to Bank a continuing lien upon and security interest in all of New Borrower's now existing or hereafter arising rights and interest in the Collateral, whether now owned or existing or hereafter created, acquired, or arising, and wherever located, including, without limitation, all of New Borrower's assets, and all of New Borrower's books relating to the foregoing and any and all claims, rights and interests in any of the above and all substitutions for, additions, attachments, accessories, accessions and improvements to and replacements, products, proceeds and insurance proceeds of any or all of the foregoing. New Borrower further covenants and agrees that by its execution hereof it shall provide all such information, complete all such forms, and take all such actions, and enter into all such agreements, in form and substance reasonably satisfactory to Bank that are reasonably deemed necessary by Bank in order to grant a valid, perfected first priority security interest to Bank in the Collateral (subject only to Permitted Liens that are permitted pursuant to the terms of the Loan Agreement to have superior priority to Bank's lien under the Loan Agreement). New Borrower hereby authorizes Bank to file financing statements, without notice to Borrower, with all appropriate jurisdictions in order to perfect or protect Bank's interest or rights hereunder, including a notice that any disposition of the Collateral, by either Borrower or any other Person, shall be deemed to violate the rights of Bank under the Code. Any such financing statement may indicate the Collateral as "all assets of Debtor" or words of similar effect, or as being of an equal or lesser scope, or with greater detail, all in Bank's discretion.

**5. REPRESENTATIONS AND WARRANTIES.** New Borrower hereby represents and warrants to Bank that all representations and warranties in the Loan Documents made on the part of Existing Borrower are true and correct on the date hereof with respect to New Borrower, with the same force and effect as if New Borrower was named as "Borrower" in the Loan Documents in addition to Existing Borrower.

**6. DESCRIPTION OF COLLATERAL.** Repayment of the Obligations is secured by, among other property, the Collateral as defined in the Loan Agreement (together with any other collateral security granted to Bank, as amended the "Security Documents"). Hereinafter, the Security Documents, together with all other documents evidencing or securing the Obligations shall be referred to as the "Existing Loan Documents".

**7. DELIVERY OF DOCUMENTS.** Each Borrower hereby agrees that the following documents shall be delivered to Bank prior to or contemporaneously with delivery of this Agreement, each in form and substance satisfactory to Bank:

- a. a secretary's corporate borrowing certificate for each New Borrower with respect to such Borrower's certificate of incorporation, by-laws, incumbency and resolutions authorizing the execution and delivery of this Agreement and the other documents required by Bank in connection with this Agreement;
- b. consent of the shareholders of each New Borrower authorizing the execution and delivery of this Agreement and the other documents required by Bank in connection with this Agreement (if required by such New Borrower's corporate documents);
- c. a long-form Certificate of Good Standing for each New Borrower from the State of Delaware;
- d. the results of a UCC search for each New Borrower indicating that there are no Liens other than Permitted Liens, and otherwise in form and substance satisfactory to Bank;

- e. a Perfection Certificate for each Borrower;
- f. evidence of insurance (on Acord 28 and Acord 25 certificates, together with endorsements to the liability and property policies, as acceptable to Bank) for each New Borrower; and
- g. such other documents as Bank may reasonably request.

8. DESCRIPTION OF CHANGE IN TERMS.

A. Modifications to Loan Agreement.

1 Borrower hereby acknowledges and agrees that, on or before the date that is thirty (30) days from the date of this Agreement, Borrower will deliver to Bank, in form and substance satisfactory to Bank, (a) an Acord 25 liability insurance certificate, (b) an Acord 28 property insurance certificate, (c) an endorsement to Borrower's liability insurance policy naming Bank as an additional insured, (d) an endorsement to Borrower's property insurance policy naming Bank as lender's loss payable, and (e) endorsements to Borrower's liability and property insurance policies stating that the insurer will provide Bank with thirty (30) days' prior written notice before any such policy or policies shall be materially altered or canceled. Borrower acknowledges and agrees that the failure of Borrower to satisfy the requirements set forth in the immediately preceding sentence on or before the date that is thirty (30) days from the date of this Agreement shall result in an immediate Event of Default under the Loan Agreement for which there shall be no grace or cure period.

2 The Loan Agreement shall be amended by deleting the following text, appearing in Section 6.9 thereof:

“(a) Liquidity Ratio. Maintain at all times, to be tested as of the last day of each month, a Liquidity Ratio of at least 1.0 to 1.0.”

and inserting in lieu thereof the following:

“(a) Liquidity Ratio. Maintain: (i) at all times during the period commencing on the Effective Date through February 27, 2020, to be tested as of the last day of each month, a Liquidity Ratio of at least 1.0 to 1.0; (ii) at all times during the period commencing on February 28, 2020 through and including September 30, 2020, to be tested as of the last day of each month, a Liquidity Ratio of at least 1.25 to 1.0; and (iii) at all times on and after October 1, 2020, to be tested as of the last day of each month, a Liquidity Ratio of at least 1.0 to 1.0.”

- 3 The Loan Agreement shall be amended by deleting the following text, appearing in Section 6.9(b) thereof:

"(ii) to be tested as of the last day of each month commencing with the month ending November 30, 2019, Adjusted EBITDA, measured for the six (6) month period ending on the last day of such month, of at least (A) One Million Four Hundred Fifty Thousand Dollars (\$1,450,000.00) for the six (6) month period ending November 30, 2019, (B) One Million Five Hundred Thousand Dollars (\$1,500,000.00) for the six (6) month period ending December 31, 2019, (C) One Million Six Hundred Thousand Dollars (\$1,600,000.00) for the six (6) month periods ending January 31, 2020, February 29, 2020, and March 31, 2020, (D) One Million Eight Hundred Fifty Thousand Dollars (\$1,850,000.00) for the six (6) month periods ending April 30, 2020, May 31, 2020, and June 30, 2020, (E) Two Million Fifty Thousand Dollars (\$2,050,000.00) for the six (6) month periods ending July 31, 2020, August 31, 2020, and September 30, 2020, and (F) Two Million Two Hundred Fifty Thousand Dollars (\$2,250,000.00) for the six (6) month period ending October 31, 2020 and for the six (6) month period ending on the last day of each month thereafter."

and inserting in lieu thereof the following:

"(ii) to be tested as of the last day of each month set forth below commencing with the month ending November 30, 2019, Adjusted EBITDA, measured for the six (6) month period ending on the last day of such month, of at least (A) One Million Four Hundred Fifty Thousand Dollars (\$1,450,000.00) for the six (6) month period ending November 30, 2019 and (B) Two Million Two Hundred Fifty Thousand Dollars (\$2,250,000.00) for the six (6) month period ending October 31, 2020 and for the six (6) month period ending on the last day of each month thereafter."

- 4 The Loan Agreement shall be amended by deleting the following text, appearing in the definition of "Permitted Indebtedness" in Section 13.1 thereof:

"(f) Indebtedness consisting of the financing of insurance premiums not exceeding Four Hundred Fifty Thousand Dollars (\$450,000.00) in the aggregate outstanding at any time; and"

and inserting in lieu thereof the following:

"(f) Indebtedness consisting of the financing of insurance premiums not exceeding Six Hundred Thousand Dollars (\$600,000.00) in the aggregate outstanding at any time; and"

- 5 The Loan Agreement shall be amended by inserting the following new definitions, appearing alphabetically in Section 13.1 thereof:

**CareCloud**" is CareCloud Corporation, a Delaware corporation."

**MTBC-Med**" is MTBC-Med, Inc., a Delaware corporation."

- 6 The Loan Agreement shall be amended by deleting the following definition, appearing in Section 13.1 thereof:

**Borrower**" means, individually and collectively, jointly and severally, Parent Borrower, Acquisition, Health and Management."

and inserting in lieu thereof the following:

**Borrower**" means, individually and collectively, jointly and severally, Parent Borrower, Acquisition, Health, Management, MTBC-Med and CareCloud."

7 The Loan Agreement shall be amended in the definition of Permitted Investments in Section 13.1 thereof by (i) deleting "and" appearing at the end of subsection (g) and (ii) deleting subsection (h) in its entirety and inserting in lieu thereof:

"(h) Investments consisting of notes receivable of, or prepaid royalties and other credit extensions, to customers and suppliers who are not Affiliates, in the ordinary course of business; provided that this paragraph (h) shall not apply to Investments of Borrower in any Subsidiary; and

(i) Investments by Borrower in an independent telehealth entity in an aggregate amount not to exceed One Million Dollars (\$1,000,000.00)."

8 The Compliance Certificate appearing as **Exhibit B** to the Loan Agreement is hereby replaced with the Compliance Certificate attached as **Schedule 1** hereto.

**9. FEES AND EXPENSES.** Borrower shall pay to Bank a modification fee equal to Two Thousand Five Hundred Dollars (\$2,500.00), which fee shall be fully earned, due and payable as of the date hereof. Borrower shall also reimburse Bank for all legal fees and expenses incurred in connection with this amendment to the Existing Loan Documents.

**10. PERFECTION CERTIFICATES.**

(a) Parent hereby ratifies, confirms and reaffirms, all and singular, the terms and disclosures contained in a certain Perfection Certificate dated as of February 28, 2020 (the "**Parent Perfection Certificate**") delivered by Parent to Bank, and acknowledges, confirms and agrees that the disclosures and information Parent provided to Bank in the Parent Perfection Certificate have not changed, as of the date hereof.

(b) Acquisition hereby ratifies, confirms and reaffirms, all and singular, the terms and disclosures contained in a certain Perfection Certificate dated as of February 28, 2020 (the "**Acquisition Perfection Certificate**") delivered by Acquisition to Bank, and acknowledges, confirms and agrees that the disclosures and information Acquisition provided to Bank in the Acquisition Perfection Certificate have not changed, as of the date hereof.

(c) Health hereby ratifies, confirms and reaffirms, all and singular, the terms and disclosures contained in a certain Perfection Certificate dated as of February 28, 2020 (the "**Health Perfection Certificate**") delivered by Health to Bank, and acknowledges, confirms and agrees that the disclosures and information Health provided to Bank in the Health Perfection Certificate have not changed, as of the date hereof.

(d) Management hereby ratifies, confirms and reaffirms, all and singular, the terms and disclosures contained in a certain Perfection Certificate dated as of February 28, 2020 (the "**Management Perfection Certificate**") delivered by Management to Bank, and acknowledges, confirms and agrees that the disclosures and information Management provided to Bank in the Management Perfection Certificate have not changed, as of the date hereof.

(e) In connection with this Agreement, MTBC-Med delivered to Bank a Perfection Certificate signed by MTBC-Med dated as of the date of this Agreement (the "**MTBC-Med Perfection Certificate**"). MTBC-Med represents and warrants to Bank that: (i) MTBC-Med's exact legal name is that indicated on the MTBC-Med Perfection Certificate and on the signature page hereof; and (ii) MTBC-Med is an organization of the type, and is organized in the jurisdiction, set forth in the MTBC-Med Perfection Certificate; and (iii) the MTBC-Med Perfection Certificate accurately sets forth MTBC-Med's organizational identification number or accurately states that MTBC-Med has none; (iv) the MTBC-Med Perfection Certificate accurately sets forth MTBC-Med's place of business, or, if more than one, its chief executive office as well as MTBC-Med's mailing address if different, and (v) all other information set forth on the MTBC-Med Perfection Certificate pertaining to MTBC-Med is accurate and complete.

(f) In connection with this Agreement, CareCloud delivered to Bank a Perfection Certificate signed by CareCloud dated as of the date of this Agreement (the "CareCloud Perfection Certificate"). CareCloud represents and warrants to Bank that: (i) CareCloud's exact legal name is that indicated on the CareCloud Perfection Certificate and on the signature page hereof; and (ii) CareCloud is an organization of the type, and is organized in the jurisdiction, set forth in the CareCloud Perfection Certificate; and (iii) the CareCloud Perfection Certificate accurately sets forth CareCloud's organizational identification number or accurately states that CareCloud has none; (iv) the CareCloud Perfection Certificate accurately sets forth CareCloud's place of business, or, if more than one, its chief executive office as well as CareCloud's mailing address if different, and (v) all other information set forth on the CareCloud Perfection Certificate pertaining to CareCloud is accurate and complete.

Borrower hereby acknowledges and agrees that all references in the Loan Agreement to the "Perfection Certificate" shall mean and include, collectively, the Parent Perfection Certificate, the Acquisition Perfection Certificate, the Health Perfection Certificate, the Management Perfection Certificate, the MTBC-Med Perfection Certificate, and the CareCloud Perfection Certificate.

11. CONSISTENT CHANGES. The Existing Loan Documents are hereby amended wherever necessary to reflect the changes described above.

12. RATIFICATION OF LOAN DOCUMENTS. Borrower hereby ratifies, confirms, and reaffirms all terms and conditions of all security or other collateral granted to Bank, and confirms that the indebtedness secured thereby includes, without limitation, the Obligations.

13. RELEASE BY BORROWER.

- A. FOR GOOD AND VALUABLE CONSIDERATION, Borrower hereby forever relieves, releases, and discharges Bank and its present or former employees, officers, directors, agents, representatives, attorneys, and each of them, from any and all claims, debts, liabilities, demands, obligations, promises, acts, agreements, costs and expenses, actions and causes of action, of every type, kind, nature, description or character whatsoever, whether known or unknown, suspected or unsuspected, absolute or contingent, arising out of or in any manner whatsoever connected with or related to facts, circumstances, issues, controversies or claims existing or arising from the beginning of time through and including the date of execution of this Agreement (collectively "Released Claims"). Without limiting the foregoing, the Released Claims shall include any and all liabilities or claims arising out of or in any manner whatsoever connected with or related to the Loan Documents, the Recitals hereto, any instruments, agreements or documents executed in connection with any of the foregoing or the origination, negotiation, administration, servicing and/or enforcement of any of the foregoing.
- B. In furtherance of this release, Borrower expressly acknowledges and waives any and all rights under Section 1542 of the California Civil Code, which provides as follows:

"**A general release** does not extend to claims that the creditor or releasing party does not know or suspect to exist in his or her favor at the time of executing the release and that, if known by him or her, would have materially affected his or her settlement with the debtor or released party." (Emphasis added.)

- C. By entering into this release, Borrower recognizes that no facts or representations are ever absolutely certain and it may hereafter discover facts in addition to or different from those which it presently knows or believes to be true, but that it is the intention of Borrower hereby to fully, finally and forever settle and release all matters, disputes and differences, known or unknown, suspected or unsuspected; accordingly, if Borrower should subsequently discover that any fact that it relied upon in entering into this release was untrue, or that any understanding of the facts was incorrect, Borrower shall not be entitled to set aside this release by reason thereof, regardless of any claim of mistake of fact or law or any other circumstances whatsoever. Borrower acknowledges that it is not relying upon and has not relied upon any representation or statement made by Bank with respect to the facts underlying this release or with regard to any of such party's rights or asserted rights.
- D. This release may be pleaded as a full and complete defense and/or as a cross-complaint or counterclaim against any action, suit, or other proceeding that may be instituted, prosecuted or attempted in breach of this release. Borrower acknowledges that the release contained herein constitutes a material inducement to Bank to enter into this Agreement, and that Bank would not have done so but for Bank's expectation that such release is valid and enforceable in all events.
- E. Borrower hereby represents and warrants to Bank, and Bank is relying thereon, as follows:
  - 1 Except as expressly stated in this Agreement, neither Bank nor any agent, employee or representative of Bank has made any statement or representation to Borrower regarding any fact relied upon by Borrower in entering into this Agreement.
  - 2 Borrower has made such investigation of the facts pertaining to this Agreement and all of the matters appertaining thereto, as it deems necessary.
  - 3 The terms of this Agreement are contractual and not a mere recital.
  - 4 This Agreement has been carefully read by Borrower, the contents hereof are known and understood by Borrower, and this Agreement is signed freely, and without duress, by Borrower.
  - 5 Borrower represents and warrants that it is the sole and lawful owner of all right, title and interest in and to every claim and every other matter which it releases herein, and that it has not heretofore assigned or transferred, or purported to assign or transfer, to any person, firm or entity any claims or other matters herein released. Borrower shall indemnify Bank, defend and hold it harmless from and against all claims based upon or arising in connection with prior assignments or purported assignments or transfers of any claims or matters released herein.

14. CONTINUING VALIDITY. Borrower understands and agrees that in modifying the existing Obligations, Bank is relying upon Borrower's representations, warranties, and agreements, as set forth in the Existing Loan Documents. Except as expressly modified pursuant to this Agreement, the terms of the Existing Loan Documents remain unchanged and in full force and effect. Bank's agreement to modifications to the existing Obligations pursuant to this Agreement in no way shall obligate Bank to make any future modifications to the Obligations. Nothing in this Agreement shall constitute a satisfaction of the Obligations. It is the intention of Bank and Borrower to retain as liable parties all makers of Existing Loan Documents, unless the party is expressly released by Bank in writing. No maker will be released by virtue of this Agreement.

15. COUNTERSIGNATURE. This Agreement shall become effective only when it shall have been executed by Borrower and Bank.

*[The remainder of this page is intentionally left blank]*

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as a sealed instrument under the laws of the Commonwealth of Massachusetts as of the date first written above.

**EXISTING BORROWER:**

**MTBC, INC.**

By /s/ Bill Korn  
Name: Bill Korn  
Title: CFO

**BANK:**

**SILICON VALLEY BANK**

By /s/ Michael McMahon  
Name: Michael McMahon  
Title: Director

**MTBC ACQUISITION, CORP.**

By /s/ Bill Korn  
Name: Bill Korn  
Title: CFO

**MTBC HEALTH, INC.**

By /s/ Bill Korn  
Name: Bill Korn  
Title: CFO

**MTBC PRACTICE MANAGEMENT, CORP.**

By /s/ Bill Korn  
Name: Bill Korn  
Title: CFO

[Signatures continue on the next page]

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**NEW BORROWER**

**MTBC-MED, INC.**

By /s/ Bill Korn  
Name: Bill Korn  
Title: CFO

**CARECLOUD CORPORATION**

By /s/ Bill Korn  
Name: Bill Korn  
Title: CFO

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**SCHEDULE 1****EXHIBIT B**  
**COMPLIANCE CERTIFICATE**

TO: SILICON VALLEY BANK  
 FROM: MTBC, INC., MTBC ACQUISITION, CORP.,  
 MTBC HEALTH, INC., MTBC PRACTICE  
 MANAGEMENT, CORP., MTBC-MED, INC. and  
 CARECLOUD CORPORATION

Date: \_\_\_\_\_

The undersigned authorized officer of MTBC, INC., MTBC ACQUISITION, CORP., MTBC HEALTH, INC., MTBC PRACTICE MANAGEMENT, CORP., MTBC-MED, INC. and CARECLOUD CORPORATION (jointly and severally, individually and collectively, "Borrower") certifies that under the terms and conditions of the Loan and Security Agreement between Borrower and Bank (the "Agreement"), (1) Borrower is in complete compliance for the period ending \_\_\_\_\_ with all required covenants except as noted below, (2) there are no Events of Default, (3) all representations and warranties in the Agreement are true and correct in all material respects on this date except as noted below; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date, (4) Borrower, and each of its Subsidiaries, has timely filed all required tax returns and reports, and Borrower has timely paid all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower except as otherwise permitted pursuant to the terms of Section 5.9 of the Agreement, and (5) no Liens have been levied or claims made against Borrower or any of its Subsidiaries, if any, relating to unpaid employee payroll or benefits of which Borrower has not previously provided written notification to Bank. Attached are the required documents supporting the certification. The undersigned certifies that these are prepared in accordance with GAAP consistently applied from one period to the next except as explained in an accompanying letter or footnotes. The undersigned acknowledges that no borrowings may be requested at any time or date of determination that Borrower is not in compliance with any of the terms of the Agreement, and that compliance is determined not just at the date this certificate is delivered. Capitalized terms used but not otherwise defined herein shall have the meanings given them in the Agreement.

Please indicate compliance status by circling Yes/No under "Complies" column.

Reporting Covenants	Required	Complies
Monthly financial statements with Compliance Certificate	Monthly within 30 days	Yes No
Annual financial statements (CPA Audited) on Form 10-K	Within 5 days after filing with SEC	Yes No
10-Q and 8-K	Within 5 days after filing with SEC	Yes No
A/R & A/P Agings	Monthly within 30 days	Yes No
Repeatable Revenue Reports	Monthly within 30 days	Yes No
Board-approved projections	FYE within 30 days, and as updated/amended	Yes No

Financial Covenants	Required	Actual	Complies
<b>Maintain as indicated:</b>			
Liquidity Ratio (at all times; tested monthly)	>_____ * : 1.0	_____ : 1.0	Yes No
Adjusted EBITDA (trailing six-month; tested monthly)	>_____ **	_____ : 1.0	Yes No N/A

\* As set forth in Section 6.9(a) of the Agreement

\*\* As set forth in Section 6.9(b) of the Agreement

The following financial covenant analyses and information set forth in Schedule 1 attached hereto are true and accurate as of the date of this Certificate.

The following are the exceptions with respect to the certification above: (If no exceptions exist, state "No exceptions to note.")

**BANK USE ONLY**

MTBC, INC.  
MTBC ACQUISITION, CORP.  
MTBC HEALTH, INC.  
MTBC PRACTICE MANAGEMENT, CORP.  
MTBC-MED, INC.  
CARECLOUD CORPORATION

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Date: \_\_\_\_\_

Verified: \_\_\_\_\_

**AUTHORIZED SIGNER**

Date: \_\_\_\_\_

Compliance Status: Yes No

**Schedule 1 to Compliance Certificate**

**Financial Covenants of Borrower**

In the event of a conflict between this Schedule and the Loan Agreement, the terms of the Loan Agreement shall govern.

Dated: \_\_\_\_\_

**I. Liquidity Ratio** (at all times) (tested monthly) (Section 6.9(a))

Required:  $\geq$  \_\_\_\_\*: 1.0

\*As set forth in Section 6.9(a) of the Agreement

Actual: \_\_\_\_ : 1.0

A.	Aggregate value of Borrower's unrestricted and unencumbered cash and Cash Equivalents maintained with Bank and Bank's Affiliates	\$_____
B.	Aggregate value of Borrower's net billed accounts receivable	\$_____
C.	The sum of lines A and B	\$_____
D.	All obligations and liabilities of Borrower to Bank (other than any obligations related to Bank Services that are secured by specifically pledged and segregated cash on terms and in amounts satisfactory to Bank in its sole discretion)	\$_____
E.	Liquidity Ratio (line C divided by line D)	_____

Is line E equal to or greater than the amount set forth above?

\_\_\_\_\_ No, not in compliance      \_\_\_\_\_ Yes, in compliance

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**II. Adjusted EBITDA** (trailing six-month) (tested monthly) (Section 6.9(b))

Required: \$ \_\_\_\_\_ \*\*

\*\*As set forth in Section 6.9(b) of the Agreement.

Actual: \$ \_\_\_\_\_

A.	Net Income	\$ _____
B.	To the extent included in the determination of Net Income	
1.	Interest Expense	\$ _____
2.	Income tax expense	\$ _____
3.	Depreciation	\$ _____
4.	Amortization expense	\$ _____
5.	Non-cash stock-based compensation expense	\$ _____
6.	Stock-based compensation payable in cash (not to exceed \$250,000 per fiscal year)	\$ _____
7.	Foreign currency gains and losses	\$ _____
8.	Gain or loss resulting from the change in the value of contingent consideration and non-recurring transaction and integration costs related to acquisitions that occurred prior to the Effective Date	\$ _____
9.	Gain or loss resulting from the change in the value of contingent consideration and non-recurring transaction and integration costs related to acquisitions occurring on or after the Effective Date to the extent approved by Bank on a case-by-case basis in its sole discretion	\$ _____
10.	The sum of lines 1 through 9	\$ _____
C.	Unfinanced capital expenditures	\$ _____
D.	Capitalized software expenses	\$ _____
E.	The sum of lines C and D	
F.	Adjusted EBITDA (line A plus line B.10 minus line E)	\$ _____

Is line F equal to or greater than the required amount set forth above?

\_\_\_\_\_ No, not in compliance      \_\_\_\_\_ Yes, in compliance

ny-1861516

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## ESCROW AGREEMENT

THIS ESCROW AGREEMENT (this "Agreement") is entered into as of January 8, 2020, by and among MTBC, Inc. a Delaware corporation ("Purchaser"), Runway Growth Credit Fund Inc (*the "Sellers' Representative"*) and TD Bank, NA (the "Escrow Agent"). Purchaser, Sellers' Representative and Escrow Agent are each referred to herein as a "Party" and collectively, as the "Parties".

**WHEREAS**, Purchaser and Sellers' Representative, among others, have entered into an Agreement and Plan of Merger dated as of January 8, 2020 (the "Merger Agreement");

**WHEREAS**, except as otherwise provided herein, capitalized terms used in this Escrow Agreement have the meanings assigned to them in the Merger Agreement; and

**WHEREAS**, pursuant to the Merger Agreement, the Parties have agreed that a portion of the Merger Consideration consisting of 260,000 shares of MTBC 11% Series A Cumulative Redeemable Perpetual Preferred Stock (the "Escrow Shares") be deposited with the Escrow Agent subject to the terms and conditions set forth herein.

**NOW THEREFORE**, in consideration of the foregoing and of the mutual covenants hereinafter set forth, the Parties hereto agree as follows:

**1. Appointment.** The Parties hereby appoint Escrow Agent as their escrow agent for the purposes set forth herein, and Escrow Agent hereby accepts such appointment under the terms and conditions set forth herein.

**2. Disposition.** The Escrow Agent shall disburse the Escrow Shares in accordance with any written direction executed by both the Purchaser and Sellers' Representative.

**3. Escrow Shares.**

(a) Transferability. Except in accordance with Section 3, none of the Escrow Shares shall be transferred, assigned or pledged by the Escrow Agent or any other Party.

(b) Voting. No Party will have any voting rights with respect to the Escrow Shares.

(c) Dividends, Etc. No cash dividends or other distributions paid on the Escrow Shares shall be paid to any Party until such shares have been released from escrow. If and when Escrow Shares are released to Sellers' Representative (the "Released Escrow Shares"), Purchaser will pay to Escrow Agent, for distribution to Sellers' Representative, all dividends and distributions that were declared on such Released Escrow Shares while they were held in escrow. Escrow Agent has no duty to solicit any dividends, redemption or other distributions hereunder.

(d) Fractional Shares. No fractional shares of MTBC Preferred Stock or other securities shall be retained in or released from the escrow account pursuant to this Agreement. In connection with any release of Escrow Shares from the escrow account, Purchaser shall be permitted to round to the nearest whole number or to follow such other rounding procedures as Purchaser reasonably determines to be appropriate in order to avoid retaining any fractional shares in the escrow account and in order to avoid releasing any fractional shares from the escrow account.

**4. Communications with Escrow Agent.** Any instructions setting forth, claiming, containing, objecting to, or in any way related to the transfer or distribution of the Escrow Shares must be in writing or set forth in a Portable Document Format ("PDF"), executed by the appropriate Party or Parties as evidenced by the signatures of the person or persons signing this Agreement or one of their designated persons as set forth in Schedule 1 (each an "Authorized Representative"), and delivered to Escrow Agent only by confirmed facsimile or attached to an email on a Business Day only at the fax number or email address set forth in Section 10 below. No instruction for or related to the transfer or distribution of Escrow Shares shall be deemed delivered and effective unless Escrow Agent actually shall have received it on a Business Day by facsimile or as a PDF attached to an email only at the fax number or email address set forth in Section 10 and as evidenced by a confirmed transmittal to the Party's or Parties' transmitting fax number or email address and Escrow Agent has been able to satisfy any applicable security procedures as may be required hereunder. Escrow Agent shall not be liable to any Party or other person for refraining from acting upon any instruction for or related to the transfer or distribution of the Escrow Shares if delivered to any other fax number or email address, including but not limited to a valid email address of any employee of Escrow Agent. As used in this Section 5, "Business Day" shall mean any day other than a Saturday, Sunday or any other day on which Escrow Agent located at the notice address set forth below is authorized or required by law or executive order to remain closed. The Parties acknowledge that the security procedures set forth in this Section 5 are commercially reasonable. Upon delivery of the Escrow Shares by Escrow Agent, this Agreement shall terminate, subject to the provisions of Section 9.

**5. Escrow Agent.** Escrow Agent shall have only those duties as are specifically and expressly provided herein, which shall be deemed purely ministerial in nature, and no other duties, including but not limited to any fiduciary duty, shall be implied. Escrow Agent has no knowledge of, nor any obligation to comply with, the terms and conditions of any other agreement between the Parties, nor shall Escrow Agent be required to determine if any Party has complied with any other agreement. Notwithstanding the terms of any other agreement between the Parties, the terms and conditions of this Agreement shall control the actions of Escrow Agent. Escrow Agent may conclusively rely upon any written notice, document, instruction or request delivered by the Parties believed by it to be genuine and to have been signed by an Authorized Representative(s), as applicable, without inquiry and without requiring substantiating evidence of any kind and Escrow Agent shall be under no duty to inquire into or investigate the validity, accuracy or content of any such document, notice, instruction or request. Escrow Agent shall not be liable for any action taken, suffered or omitted to be taken by it in good faith except to the extent that Escrow Agent's gross negligence or willful misconduct was the cause of any direct loss to either Party. Escrow Agent may execute any of its powers and perform any of its duties hereunder directly or through affiliates or agents. In the event Escrow Agent shall be uncertain, or believes there is some ambiguity, as to its duties or rights hereunder or receives instructions, claims or demands from any Party hereto which in Escrow Agent's judgment conflict with the provisions of this Agreement, or if Escrow Agent receives conflicting instructions from the Parties, Escrow Agent shall be entitled either to: (a) refrain from taking any action until it shall be given (i) a joint written direction executed by Authorized Representatives of the Parties which eliminates such conflict or (ii) a court order issued by a court of competent jurisdiction (it being understood that the Escrow Agent shall be entitled conclusively to rely and act upon any such court order and shall have no obligation to determine whether any such court order is final); or (b) file an action in interpleader. Escrow Agent shall have no duty to solicit any payments which may be due it, including, without limitation, the Escrow Shares nor shall the Escrow Agent have any duty or obligation to confirm or verify the accuracy or correctness of any amounts deposited with it hereunder. Anything in this Agreement to the contrary notwithstanding, in no event shall Escrow Agent be liable for special, incidental, punitive, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if Escrow Agent has been advised of the likelihood of such loss or damage and regardless of the form of action.

**6. Resignation; Succession.** Escrow Agent may resign and be discharged from its duties or obligations hereunder by giving thirty (30) days advance notice in writing of such resignation to the Parties. Escrow Agent's sole responsibility after such thirty (30) day notice period expires shall be to hold the Escrow Shares and to deliver the same to a designated substitute escrow agent, if any, appointed by the Parties, or such other person designated by the Parties, or in accordance with the directions of a final court order, at which time of delivery, Escrow Agent's obligations hereunder shall cease and terminate. If prior to the effective resignation date, the Parties have failed to appoint a successor escrow agent, or to instruct the Escrow Agent to deliver the Escrow Shares to another person as provided above, at any time on or after the effective resignation date, Escrow Agent either (a) may interplead the Escrow Shares with a court located in the State of New York and the costs, expenses and reasonable attorney's fees which are incurred in connection with such proceeding may be charged against and withdrawn from the Escrow Shares; or (b) appoint a successor escrow agent of its own choice. Any appointment of a successor escrow agent shall be binding upon the Parties and no appointed successor escrow agent shall be deemed to be an agent of Escrow Agent. Escrow Agent shall deliver the Escrow Shares to any appointed successor escrow agent, at which time Escrow Agent's obligations under this Agreement shall cease and terminate. Any entity into which Escrow Agent may be merged or converted or with which it may be consolidated, or any entity to which all or substantially all the escrow business may be transferred, shall be the Escrow Agent under this Agreement without further act.

**7. Compensation.** The Parties agree severally and not jointly to pay Escrow Agent upon execution of this Agreement and from time to time thereafter reasonable compensation for the services to be rendered hereunder, which unless otherwise agreed in writing, shall be as described in Schedule 2. Each of the Parties further agrees to the disclosures set forth in Schedule 2.

**8. Indemnification and Reimbursement.** The Parties agree jointly and severally to indemnify, defend, hold harmless, pay or reimburse Escrow Agent and its affiliates and their respective successors, assigns, directors, agents and employees (the "Indemnitees") from and against any and all losses, damages, claims, liabilities, penalties, judgments, settlements, litigation, investigations, costs or expenses (including, without limitation, the fees and expenses of outside counsel and experts and their staffs and all expense of document location, duplication and shipment) (collectively "Losses"), arising out of or in connection with (a) Escrow Agent's performance of this Agreement, except to the extent that such Losses are determined by a court of competent jurisdiction to have been caused by the gross negligence, willful misconduct, or bad faith of such Indemnitee; and (b) Escrow Agent's following any instructions or directions, whether joint or singular, from the Parties received in accordance with this Agreement. The Parties hereby grant Escrow Agent a lien on, right of set-off against and security interest in the Escrow Shares for the payment of any claim for indemnification, fees, expenses and amounts due to Escrow Agent or an Indemnitee. In furtherance of the foregoing, Escrow Agent is expressly authorized and directed, but shall not be obligated, to charge against and withdraw from the Escrow Shares for its own account or for the account of an Indemnitee any amounts due to Escrow Agent or to an Indemnitee under Section 8 or 9. The obligations set forth in this Section 9 shall survive the resignation, replacement or removal of Escrow Agent or the termination of this Agreement.

**9. Notices.** All communications hereunder shall be in writing or set forth in a PDF attached to an email, and all instructions from a Party or the Parties to the Escrow Agent shall be executed by an Authorized Representative, and shall be delivered in accordance with the terms of this Agreement by facsimile, email or overnight courier only to the appropriate fax number, email address, or notice address set forth for each party as follows:

If to Purchaser: MTBC, Inc.

7 Clyde Road  
Somerset, NJ 08873  
Attn: General Counsel  
Facsimile: (732) 227-8575  
Email: [legal@mtbc.com](mailto:legal@mtbc.com)

If to Seller's Representative:

Runway Growth Credit Fund Inc.

205 North Michigan Avenue, Suite 4200

Chicago, Illinois 60601

Attention: Tom Raterman, CFO

Facsimile:

Email:

If to Escrow Agent:

TD Bank, N.A.

2059 Springdale Road

Cherry Hill, NJ 08003

Attention: David Leondi

Fax No.: 856-685-5267

Email Address: [david.leondi@td.com](mailto:david.leondi@td.com)

**10. Compliance with Court Orders.** In the event that a legal garnishment, attachment, levy, restraining notice or court order is served with respect to any of the Escrow Shares, or the delivery thereof shall be stayed or enjoined by an order of a court, Escrow Agent is hereby expressly authorized, in its sole discretion, to obey and comply with all such orders so entered or issued, which it is advised by legal counsel of its own choosing is binding upon it, whether with or without jurisdiction, and in the event that Escrow Agent obeys or complies with any such order it shall not be liable to any of the Parties hereto or to any other person by reason of such compliance notwithstanding such order be subsequently reversed, modified, annulled, set aside or vacated.

**11. Miscellaneous.** The provisions of this Agreement may be waived, altered, amended or supplemented only by a writing signed by the Escrow Agent and the Parties. Neither this Agreement nor any right or interest hereunder may be assigned by any Party without the prior consent of Escrow Agent and the other Party. This Agreement shall be governed by and construed under the laws of the State of New Jersey. Each Party and Escrow Agent irrevocably waives any objection on the grounds of venue, forum non-conveniens or any similar grounds and irrevocably consents to service of process by mail or in any other manner permitted by applicable law and consents to the jurisdiction of the courts located in the State of New Jersey. To the extent that in any jurisdiction either Party may now or hereafter be entitled to claim for itself or its assets, immunity from suit, execution, attachment (before or after judgment) or other legal process, such Party shall not claim, and hereby irrevocably waives, such immunity. Escrow Agent and the Parties further hereby waive any right to a trial by jury with respect to any lawsuit or judicial proceeding arising or relating to this Agreement. No party to this Agreement is liable to any other party for losses due to, or if it is unable to perform its obligations under the terms of this Agreement because of, acts of God, fire, war, terrorism, floods, strikes, electrical outages, equipment or transmission failure, or other causes reasonably beyond its control. This Agreement and any joint instructions from the Parties may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument or instruction, as applicable. All signatures of the parties to this Agreement may be transmitted by facsimile or as a PDF attached to an email, and such facsimile or PDF will, for all purposes, be deemed to be the original signature of such party whose signature it reproduces, and will be binding upon such party. If any provision of this Agreement is determined to be prohibited or unenforceable by reason of any applicable law of a jurisdiction, then such provision shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions thereof, and any such prohibition or unenforceability in such jurisdiction shall not invalidate or render unenforceable such provisions in any other jurisdiction. The Parties represent, warrant and covenant that each document, notice, instruction or request provided by such Party to Escrow Agent shall comply with applicable laws and regulations. Except as expressly provided in Section 9 above, nothing in this Agreement, whether express or implied, shall be construed to give to any person or entity other than Escrow Agent and the Parties any legal or equitable right, remedy, interest or claim under or in respect of the Account or this Agreement.

**IN WITNESS WHEREOF**, the parties hereto have executed this Agreement as of the date set forth above.

**MTBC, Inc.**

By: /s/ Shruti Patel  
Name: Shruti Patel  
Title: General Counsel

**Runway Growth Credit Fund Inc.**

By: /s/ David Spreng  
Name: David Spreng  
Title: CEO

**TD Bank, N.A.**

By: /s/ David C. Leondi  
Name: David C. Leondi  
Title: Vice President

**SCHEDULE 1**

**Telephone Numbers and Authorized Signatures for  
Person(s) Designated to Give Instructions and Confirm Funds Transfer Instructions**

For Purchaser:

<u>Name</u>	<u>Telephone Number</u>	<u>Signature</u>
1. Shruti Patel, General Counsel	732-873-5133 x146	_____
2. _____	_____	_____
3. _____	_____	_____

For Sellers' Representative:

<u>Name</u>	<u>Telephone Number</u>	<u>Signature</u>
1. _____	_____	_____
2. _____	_____	_____
3. _____	_____	_____

All instructions, including but not limited to funds transfer instructions, whether transmitted by facsimile or set forth in a PDF attached to an email, must include the signature of the Authorized Representative authorizing said funds transfer on behalf of such Party.

## SCHEDULE 2

TD Bank

### Schedule of Fees and Disclosures for Escrow Agent Services

#### Schedule of Fees for Escrow Agent Services

Based upon our current understanding of your proposed transaction, our fee proposal is as follows:

**Account Acceptance Fee .** **\$0**

Encompassing review, negotiation and execution of governing documentation, opening of the account, and completion of all due diligence documentation. Payable upon closing.

**Annual Administration Fee** **\$6,000**

The Administration Fee covers our usual and customary ministerial duties, including record keeping, distributions, document compliance and such other duties and responsibilities expressly set forth in the governing documents for each transaction. Payable upon closing and annually in advance thereafter, without proration for partial years.

#### Extraordinary Services and Out-of Pocket Expenses

Any additional services beyond our standard services as specified above, and all reasonable out-of-pocket expenses including attorney's or accountant's fees and expenses will be considered extraordinary services for which related costs, transaction charges, and additional fees will be billed at the Escrow Agent's then standard rate. Disbursements, receipts, investments or tax reporting exceeding 25 items per year may be treated as extraordinary services thereby incurring additional charges. The Escrow Agent may impose, charge, pass-through and modify fees and/or charges for any account established and services provided by the Escrow Agent, including but not limited to, transaction, maintenance, balance-deficiency, and service fees, agency or trade execution fees, and other charges, including those levied by any governmental authority.

**Fee Disclosure & Assumptions:** Please note that the fees quoted are based on a review of the transaction documents provided and an internal due diligence review. The Escrow Agent reserves the right to revise, modify, change and supplement the fees quoted herein if the assumptions underlying the activity in the account, level of balances, market volatility or conditions or other factors change from those used to set our fees. Payment of the invoice is due upon receipt

The escrow deposit shall be continuously invested in a TD Bank, NA money market deposit account ("MMDA"). MMDA have rates of interest or compensation that may vary from time to time as determined by the Escrow Agent.

#### Disclosures and Agreements

**Patriot Act Disclosure.** Section 326 of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("USA PATRIOT Act") requires Escrow Agent to implement reasonable procedures to verify the identity of any person that opens a new account with it. Accordingly, you acknowledge that Section 326 of the USA PATRIOT Act and Escrow Agent's identity verification procedures require Escrow Agent to obtain information which may be used to confirm your identity including without limitation name, address and organizational documents ("identifying information"). You agree to provide Escrow Agent with and consent to Escrow Agent obtaining from third parties any such identifying information required as a condition of opening an account with or using any service provided by the Escrow Agent.

**OFAC Disclosure.** Escrow Agent is required to act in accordance with the laws and regulations of various jurisdictions relating to the prevention of money laundering and the implementation of sanctions, including but not limited to regulations issued by the U.S. Office of Foreign Assets Control. Escrow Agent is not obligated to execute payment orders or effect any other transaction where the beneficiary or other payee is a person or entity with whom the Escrow Agent is prohibited from doing business by any law or regulation applicable to Escrow Agent, or in any case where compliance would, in Escrow Agent's opinion, conflict with applicable law or banking practice or its own policies and procedures. Where Escrow Agent does not execute a payment order or effect a transaction for such reasons, Escrow Agent may take any action required by any law or regulation applicable to Escrow Agent including, without limitation, freezing or blocking funds.

**Abandoned Property.** Escrow Agent is required to act in accordance with the laws and regulations of various states relating to abandoned property and, accordingly, shall be entitled to remit dormant funds to any state as abandoned property in accordance with such laws and regulations.

**THE FOLLOWING DISCLOSURES ARE REQUIRED TO BE PROVIDED UNDER APPLICABLE U.S. REGULATIONS, INCLUDING, BUT NOT LIMITED TO, FEDERAL RESERVE REGULATION D. WHERE SPECIFIC INVESTMENTS ARE NOTED BELOW, THE DISCLOSURES APPLY ONLY TO THOSE INVESTMENTS AND NOT TO ANY OTHER INVESTMENT.**

**Deposit Account Disclosure.** Escrow Agent is authorized, for regulatory reporting and internal accounting purposes, to divide an escrow demand deposit account maintained in the U.S. in which the Fund is held into a non-interest bearing demand deposit internal account and a non-interest bearing savings internal account, and to transfer funds on a daily basis between these internal accounts on Escrow Agent's general ledger in accordance with U.S. law at no cost to the Parties. Escrow Agent will record the internal accounts and any transfers between them on Escrow Agent's books and records only. The internal accounts and any transfers between them will not affect the Fund, any investment or disposition of the Fund, use of the escrow demand deposit account or any other activities under this Agreement, except as described herein. Escrow Agent will establish a target balance for the demand deposit internal account, which may change at any time. To the extent funds in the demand deposit internal account exceed the target balance, the excess will be transferred to the savings internal account, unless the maximum number of transfers from the savings internal account for that calendar month or statement cycle has already occurred. If withdrawals from the demand deposit internal account exceeds the available balance in the demand deposit internal account, funds from the savings internal account will be transferred to the demand deposit internal account up to the entire balance of available funds in the savings internal account to cover the shortfall and to replenish any target balance that Escrow Agent has established for the demand deposit internal account. If a sixth transfer is needed during a calendar month or statement cycle, it will be for the entire balance in the savings internal account, and such funds will remain in the demand deposit internal account for the remainder of the calendar month or statement cycle.

**MMDA Disclosure and Agreement.** If MMDA is the investment for the escrow deposit as set forth above or anytime in the future, you acknowledge and agree that U.S. law limits the number of pre-authorized or automatic transfers or withdrawals or telephonic/electronic instructions that can be made from an MMDA to a total of six (6) per calendar month or statement cycle or similar period. Escrow Agent is required by U.S. law to reserve the right to require at least seven (7) days' notice prior to a withdrawal from a money market deposit account.

**Unlawful Internet Gambling.** The use of any account to conduct transactions (including, without limitation, the acceptance or receipt of funds through an electronic funds transfer, or by check, draft or similar instrument, or the proceeds of any of the foregoing) that are related, directly or indirectly, to unlawful Internet gambling is strictly prohibited.



**Subsidiary List of MTBC, Inc.**

1. MTBC Acquisition, Corp. (Delaware, US)
  2. MTBC Health, Inc. (Delaware, US)
  3. MTBC Practice Management, Corp. (Delaware, US)
  4. MTBC-Med, Inc. (Delaware, US)
  5. CareCloud Corporation (Delaware, US)
  6. Medical Transcription Billing, Corp. (Private) Limited (Pakistan)
  7. RCM – MediGain India, Pvt. Ltd. (India)
  8. RCM – MediGain Colombo, Pvt. Ltd. (Sri Lanka)
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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated February 28, 2020, with respect to the consolidated financial statements included in the Annual Report of MTBC, Inc. on Form 10-K for the year ended December 31, 2019. We consent to the incorporation by reference of said reports in the Registration Statements of MTBC, Inc. on Form S-3 (File No. 333-232493) and Forms S-8 (File No. 333-203228, 333-217317 and File No. 333-226685).

/s/ GRANT THORNTON LLP

Iselin, New Jersey  
February 28, 2020

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**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Stephen Snyder, certify that:

1. I have reviewed this Annual Report on Form 10-K of MTBC, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

**MTBC, Inc.**

By: /s/ Stephen Snyder  
Stephen Snyder  
Chief Executive Officer (*Principal Executive Officer*)

Dated:  
February 28, 2020

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**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Bill Korn, certify that:

1. I have reviewed this Annual Report on Form 10-K of MTBC, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

**MTBC, Inc.**

By: /s/ Bill Korn

Bill Korn

Chief Financial Officer (Principal Financial Officer)

Dated:  
February 28, 2020

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**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Based on my knowledge, I, Stephen Snyder, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of MTBC, Inc. on Form 10-K for the year ended December 31, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-K fairly presents in all material respects the financial condition and results of operations of MTBC, Inc.

**MTBC, Inc.**

By: /s/ Stephen Snyder

Stephen Snyder  
Chief Executive Officer(*Principal Executive Officer*)

Dated:  
February 28, 2020

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**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Based on my knowledge, I, Bill Korn, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of MTBC, Inc. on Form 10-K for the year ended December 31, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-K fairly presents in all material respects the financial condition and results of operations of MTBC, Inc.

**MTBC, Inc.**

By: /s/ Bill Korn

Bill Korn  
Chief Financial Officer (Principal Financial Officer)

Dated:  
February 28, 2020

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